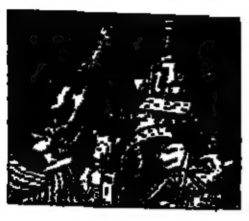
FINANCIAL TIMES

World Business Newspaper http://www.FT.com FRIDAY DECEMBER 11 1998



FT Weekend tomorrow
Jancis Robinson's Christmas wine list: best of the whites

Jeffrey Katzenberg
Rhino-skinned miracle maker
Lucy Kellaway, Page 10

French politics
Chirac buoyed as ultra-right sinks
Page 2

Today's surveys
Austria
Private finance initiative
Separate sections

Launch of the euro

The Financial Times steps up its unrivalled coverage of the European single currency next week with a definitive four-day series, beginning on Tuesday, setting the scene for the launch of economic and monetary union on January 1.

WORLD NEWS

UK's law lords to reconsider Pinochet ruling

The House of Lords, the UK's most senior court, will consider overturning its landmark ruling that General Augusto Pinochet does not have immunity from prosecution. In a move without precedent in English legal history, the law lords agreed to hear a petition from the former Chilean president's lawyers that the ruling should be overturned and a fresh hearing held. **The Americas, Page 6**

Chinese export drive
China has set out its economic strategy for 1999 with orders to officials to promote exports in "a thousand and one ways", boost consumer demand and allow an "appropriate" loosening of monetary policy. **Asia-Pacific, Page 4**

Worry over German policy
Unice, the European employers' organisation, expressed concern that the policies of Germany's new left-leaning government could be contributing to falling business confidence and slower investment. **Europe, Page 2**

Heathrow-Continent train link
Eurostar could soon be running direct train services from London's Heathrow airport to continental Europe under proposals submitted to UK deputy prime minister John Prescott. **Britain, Page 8**

Italian employers pessimistic
Italy's prospects for economic growth appear increasingly bleak after Confindustria, the employers' federation, downgraded its forecast for 1998 to 1.3 per cent. **Europe, Page 2**

Banks wary on Russian debt
Western banks said they were unlikely to accept Russia's terms for restructuring the country's $15bn of foreign-held domestic debt in default. **Europe, Page 3; Lex, Page 14**

Envoy gloomy over Kosovo
US mediator Chris Hill gave a bleak assessment of his lack of progress in trying to negotiate a lasting political settlement in the Serbian province of Kosovo. **Europe, Page 3**

Boom in Indian mergers
India is experiencing an unprecedented boom in mergers and acquisitions as companies restructure to face competition. **Asia-Pacific, Page 4**

Dispute over sinking Venice
A proposal to stop Venice from flooding has been scrapped by the government, sparking a row over whether the city is being abandoned. **Europe, Page 2**

Clash over Clinton tapes
The White House and Republicans clashed over the release of videotaped testimony by US President Bill Clinton. **The Americas, Page 6**

French unemployed protest
Jobless protesters held demonstrations throughout France to demand an increase in benefits. **Europe, Page 2**

BUSINESS NEWS

Ericsson warns of lower profits and heavy job losses

Ericsson shares fell 16 per cent after the Swedish telecommunications group issued a profits warning and announced heavy job cuts. It said a rationalisation package – likely to slash 10,000 jobs – would be unveiled in January. **Companies and Markets, Page 15; Lex, Page 14**

Standard Chartered, the UK-based international bank, is the leading contender to buy the global trade finance business put up for sale by UBS, the Swiss bank. The operation is expected to fetch over SFr1bn ($738m). **Companies and Markets, Page 15**

Prudential Insurance of America, the largest US life insurer, took a step on its path to de-mutualising when it announced it had sold its healthcare business to Aetna for $1bn. **Companies and Markets, Page 15; Aetna shows its commitment, Page 18**

Deutsche Post, the German postal service, announced an agreed DM1.8bn ($1.08bn) takeover of Danzas, the Swiss logistics group. **European companies, Page 20; Observer, Page 13**

Fund managers are to cease non-essential buying and selling of European shares and bonds this weekend, ahead of the introduction of the European single currency on January 1. **Companies and Markets, Page 15**

Cofir, the Spanish holding company, has unveiled a restructuring designed to propel it into the international hotel chain business. **European companies, Page 20**

The Oslo stock exchange is finalising plans to join Norex, the proposed alliance between the Stockholm and Copenhagen bourses. **European companies, Page 20**

Malaysia yesterday became the first Asian country to issue a bond guaranteed by the Japanese government under a $30bn aid plan. **Asia-Pacific news, Page 4; Bonds, Page 30**

India is experiencing a boom in mergers and acquisitions as companies restructure to face competition. **Asia-Pacific news, Page 4**

WAZ Medien Gruppe, the German publisher, is expanding in eastern Europe with the purchase of a 50 per cent stake in Croatian group Europa Press Holding. **International companies, Page 18**

Easdaq, the pan-European stock market for growth companies, has begun searching for a new chief executive as it struggles to hold its ground against Euro NM, the network of local bourses. **European companies, Page 20**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 41

Blair softens hard stance on rebate before EU summit

By David Wighton and Michael Smith in Vienna and Ralph Atkins in Bonn

Tony Blair, the British prime minister, last night moved to avoid isolation at this weekend's European Union summit in Vienna by suggesting for the first time that the UK's budget rebate could be up for negotiation.

Separately yesterday, Gerhard Schröder, the German chancellor, stepped up pressure for a reduction in Germany's net contribution to the EU. In a parliamentary statement, Mr Schröder said a reduction in Germany's burden would be "right at the top of the priority list" during the country's presidency of the EU, which begins next month.

Arguments over money are likely to dominate the Vienna summit and Germany's six-month EU presidency. Without a deal, the timetable for the EU's enlargement to central and eastern Europe could be delayed.

In an interview with an Austrian newspaper, Mr Blair indicated that if the Union's Common Agricultural Policy (CAP) was reformed there would be no need for the rebate.

He said a range of budget issues needed to be discussed under the German presidency, and "the most fundamental of those is CAP reform; because in a sense that is the reason why all these arrangements [on the rebate] have grown up".

However, last night Mr Blair insisted that the rebate was not negotiable, while acknowledging that other countries had equally strong positions on the issue.

"We have made it quite clear that the British rebate is not up for negotiation. And the reason we have the rebate is that without the rebate Britain's net contributions to the EU would be quite unfair," he told the BBC.

But he added that Britain would "argue our case for this as other countries will indeed argue the position that they have. What is important is that we argue strongly and in a way that promotes British national interest."

Earlier he had said that even on the most optimistic assumptions about CAP reform, the UK would still be a large net contributor to the EU budget.

Mr Blair complained of the "disorder" that had left Belgium, Denmark and Luxembourg as net recipients of EU funds, although on a per-capita basis they were better off than Germany.

Expectations that the government might be preparing to soften its position had been raised earlier yesterday by comments from Giles Radice, the Labour chairman of the Treasury select committee.

Mr Radice, who is close to the leadership, said in an interview on BBC radio: "Of course the UK would be prepared to discuss the rebate if there were reform of the CAP."

Officials from Austria, which holds the EU presidency, yesterday made clear they wanted the summit's final communiqué to agree that "everything is on the table" in the negotiations over budget contributions.

The rebate, agreed at Fontainebleau in 1984, recognised that the UK derived relatively little benefit from the CAP because of its small agricultural sector.

Editorial Comment, Page 13

UK cuts rates

The Bank of England yesterday cut interest rates by half a point to 6.25 per cent. The UK central bank's monetary policy committee cited weaker economic conditions at home and abroad as triggering the cut, which came a week after the reduction by the 11 Emu member states. **Page 9**

Gerhard Schröder: reduction in Germany's EU contribution 'a top priority'

Commodity exporters hit by price slump

By Paul Solman and Robert Corzine

World oil prices slid further below $10 a barrel yesterday, touching a new 12-year low in London. Overall commodity prices are at their lowest level for 21 years, putting exporting nations under pressure as revenues tumble.

Brent blend oil futures, a world benchmark price, fell 11 cents to $9.87 a barrel in late trading on London's International Petroleum Exchange yesterday, less than half the level of a year ago. Oil prices have lost more than $1.50 a barrel in less than a month.

US prices dropped below $11 by around midday slipping to $10.85 a barrel from $11.16. The continuing fall in oil prices is undermining the economies of leading petroleum exporters.

Some members of the Organisation of Petroleum Exporting Countries have seen their revenues fall more than 40 per cent this year, with collective oil earnings for the group likely to fall by some $50bn from last year's level.

The weakness of the global economy has also depressed the market for commodities across the board with wheat and base metals prices dropping – many to their lowest levels for 10 years.

The Bridge/CRB Futures Price Index, the benchmark for world commodity prices, declined to 191.37 late yesterday, its lowest since 1977. The index comprises futures prices from the main commodity sectors, including livestock, coffee, cocoa, sugar, grains, energy, base and precious metals.

Copper has led the base metals sector downwards on the London Metal Exchange, the main trading arena. The benchmark copper contract is trading at its lowest for more than 11 years at just above $1,500 a tonne. In the middle of last year, it was more than $3,500 a tonne.

"The picture is of weakened demand because of the Asian crisis, signs of a slowdown in Europe and expectations of a slowdown in North America," Kevin Crisp, commodities strategist at J.P. Morgan in London, said yesterday.

"Oil inventories are too high and most producers want cuts in output to support the price," one energy analyst said yesterday. "But Opec has put off the decision until March."

Warm weather is also depressing heating oil and natural gas prices. Forecasts of a colder than usual winter in the northern hemisphere had led traders to expect a drawdown in stocks during the next few months.

However, temperatures in the US north-east – crucial to the US heating oil market – are currently 20 per cent warmer than normal. US heating oil demand is 8.5 per cent lower than this time last year, according to the US Energy Department.

Metals producers know the market is oversupplied but most are reluctant to cut output in case the price rallies and they are left with a lower market share, one analyst said.

The slump in agricultural commodity prices has hit US farmers, especially in the northern plains states where wheat accounts for 45 per cent of output. Wheat prices are trading at around 280 cents a bushel on the Chicago Board of Trade down from 370 cents at the start of the year.

The wealth dries up, Page 12
Lex, Page 14
Commodities, Page 32

EU action on noisy aircraft angers US

By Emma Tucker in Brussels

A European Commission decision to clamp down on the use of old, noisy aircraft inside European Union airspace is set to provoke a trade dispute with the US.

David Traynham, of the US Federal Aviation Administration, said yesterday the EU action appeared to be targeted at the US. "The EU appears to be seeking to protect the Airbus 300 model by imposing costs on the US market," he said.

The Commission, with the unanimous backing of the 15 EU member states, plans to restrict the use of noisy aircraft from April next year, even if they have been fitted with special engine mufflers, or "hush-kits".

The US, whose hush-kit manufacturers are likely to suffer from the restriction, believes the measures will damage trade. William Daley, the US commerce secretary, has written to the Commission complaining about the proposal.

The measure is likely to affect a wide range of carriers, but especially cargo and express package services operating out of the US.

"One of our concerns is that if hush-kitted aircraft are not allowed to operate in Europe; that will depress the value of these aircraft wherever they are flown," said Mr Traynham.

The EU move reinforces efforts to limit the growing problem of aircraft noise around Europe's congested airports, which is an increasingly sensitive issue. Brussels believes that unless it takes tougher measures to reduce noise and other pollution at airports, a popular backlash could threaten the expansion of the airline industry.

"The last thing we want is to relax environmental standards," said an official yesterday.

The proposal – expected to clear its final hurdles early next year – prohibits the use of hush-kitted aircraft that are not already on the European market from April. The idea is to stop such aircraft undermining the environmental benefits that are expected to flow from the upgrading by airlines to newer, quieter machines known as "Chapter Three" aircraft. At the moment, many airlines operate older "Chapter Two" aircraft whose engines have been muffled with hush-kits and which in theory meet the standards of Chapter Three models. However, the Commission argues that they are still noisier than new models.

The dispute comes at a sensitive time for the US and the EU, which are in an escalating trade row over bananas.

US negotiators were in Brussels yesterday holding talks with Commission officials to try to resolve the issue.

US Airlines recently joined the fray, lobbying European airlines to oppose the proposal. However, the Commission says the association of European airlines supports its moves.

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8923.45	(–85.74)
NASDAQ Composite	2042.06	(–8.39)
Europe and Far East		
CAC40	3746.97	(–25.64)
DAX	4642.89	(–20.99)
FTSE 100	5660.3	(–8.8)
Nikkei	14,807.80	(–124.10)
US Lunchtime RATES		
Federal Funds	4.8125%	
3-mth Treas Bills: Yld	4.46%	
Long Bond	104¼	
Yield	4.96%	
OTHER RATES		
UK: 3-mo Interbank	6⅛%	(6¼%)
UK: 10 yr Gilt	135.83	(135.85)
France: 10 yr OAT	137.70	(137.67)
Germany: 10 yr Bond	107.67	(107.64)
Japan: 10 yr JGB	105.168	(105.128)
NORTH SEA OIL (Argus)		
Brent Dated	$9.17½	(9.47)

GOLD		
New York: Comex		
	$294.1	(293.8)
London:		
	$294.65	(294.15)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.65435	
DM	1.68435	
FFr	5.5479	
SFr	1.338	
Y	117.20	
London:		
£	1.6641	(1.658)
DM	1.6595	(1.6679)
FFr	5.5666	(5.5935)
SFr	1.3487	(1.3582)
Y	117.285	(117.78)
Tokyo Close		Y 117.86
Sterling		
DM	2.7615	(2.7653)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

CONTENTS

Full contents and Lex back page

WORLD NEWS

EUROPE

VENICE $2.5bn PROJECT ABANDONED

Italy scraps plan to stop flooding

By James Blitz in Rome

One of the most ambitious projects ever undertaken to stop Venice from flooding was yesterday scrapped by the Italian government, triggering a political row over whether the city was being left to the mercy of the lagoon.

After 10 years of discussion over a $2.5bn plan to build massive gates across the city's lagoon to hold back flood waters, government advisers have said the project should be abandoned for ecological reasons.

This is not the first time that plans to save Venice from sinking have fallen through. Ever since serious flooding in 1966, a host of ideas has been mooted to keep Venice above water, such as dividing the lagoon into three artificial basins.

The latest plan – dubbed "Operation Moses" – was the most widely discussed of all the projects to prevent *acque alte*, or high water. The project's collapse may have implications for Venice's buildings, tourism and, some say, its continued existence.

The government said it was scrapping the plan because of fears it would damage the lagoon's eco-system. Environmentalists – including the powerful Green party, part of Italy's ruling coalition – argued that new 30m-high gates, which could be raised and lowered according to the sea-level, would have prevented the water in the lagoon from oxygenating and mixing with the sea.

However, those backing the plan, including a consortium of private developers called Consorzio Venezia Nuova, warned that flooding would worsen in the next century because of global warming and coastal erosion. In the last 10 years, the sea level has risen by 80cm 787 times and by 1m some 137 times. At these levels, around 12 per cent of the city falls below water, forcing people to make their way round the city on makeshift wooden walkways.

But the problem of high water is set to get worse. During the first half of this century, the city experienced flooding only five times a year. Now that figure has risen to more than 80 and on more than one occasion St Mark's Square has been transformed into a lake.

A study by a British flood control expert, Edmund Penning-Rowsell, predicts that St Mark's Square could be flooded every day by the middle of next century.

Giancarlo Galan, chairman of the Veneto Regional Council, said the decision not to go ahead with the flood control scheme was "scandalous, presumptuous and irrational", and the government was being led by a "do nothing party".

Sanro Turroni, a Green party deputy, said the government had resisted pressure from individuals who were "on the look-out for huge business contracts".

Going under: a policewoman in Venice directs pedestrians via temporary walkways after flooding in St Mark's Square in October AP

Employers 'frightened' by Bonn's pay policy

By Peter Norman in Vienna

Unice, the European employers' organisation, yesterday expressed concern that the economic policies of Germany's recently elected left of centre government could be contributing to falling business confidence and slower investment.

Dirk Hudig, Unice's secretary general, said European employers were frightened that a drive for higher wages in Germany, encouraged by Oskar Lafontaine, the German finance minister, could lead the European Central Bank to fix higher interest rates than warranted by economic conditions in the 11-nation area that will introduce the European single currency on January 1.

The employers were to make their views clear at a meeting last night with Gerhard Schröder, the German chancellor, Mr Hudig said.

As Germany is the next holder of the EU presidency, Mr Schröder was due to meet Unice leaders and representatives of European trade unions at a meeting of the "social partners" ahead of today's EU Vienna summit. Hosting the meeting would be Viktor Klima, the Austrian chancellor and current holder of the EU's rotating presidency, while Tony Blair, prime minister of Britain, the previous holder, would also attend.

Mr Hudig was especially concerned at a sharp fall in business confidence in the EU and the euro-area since September, the month Mr Schröder's coalition of Social Democrats and environmental Greens was elected.

The European Commission's industrial confidence indicator, which reflects the balance between optimists and pessimists in business surveys, fell to a seasonally adjusted minus 12 in the 15 EU countries last month from minus 9 in October and minus 5 the month before. The indicator for the euro 11 area fell to minus 8 in November from minus 5 in October and minus 2 in September.

Concern about German policies reflected "Keynesian talk of more government spending to create jobs" and doubts about Germany's determination to stand by the stability and growth pact limiting public deficits after the switch to the single currency. Employers were also reticent about the idea of an EU-wide jobs pact with verifiable targets which Germany and France urged in a letter to Mr Klima this week.

French jobless seek increase in benefits

By Robert Graham in Paris

Jobless protesters increased the pressure on the French government yesterday with a series of demonstrations throughout the country to demand an increase in unemployment benefits.

The demonstrations underlined the plight of France's jobless, many of whom receive little or no state assistance because of complex rules surrounding the benefit system.

Although unemployment has fallen by 5 per cent during the past 12 months and 300,000 new jobs have been created, the jobless rate in France remains at 11.6 per cent of the workforce.

Groups lobbying for greater unemployment benefit sprung up last winter and caught the socialist-led government of Lionel Jospin by surprise with high-profile protests, targeting public offices with sit-ins.

The unions, which have traditionally led such movements, were by-passed by new associations.

Mr Jospin was sufficiently embarrassed to increase benefits and the social security net was widened. These measures, combined with strong economic growth, blunted the protests. But with the economy beginning to slow, the unemployed associations are concerned that job creation next year will be affected.

They also point out that the jobs being created are not for unskilled workers. This category is being penalised by plant rationalisation throughout the country, spurred by the need for productivity gains ahead of the introduction of the 35-hour week which the government claimed would generate jobs.

A number of job losses have been announced ranging from Seita, the national tobacco company, to shipyards at Le Havre, refinery restructuring in Strasbourg and the closure of Benetton and Chanel clothing operations in France. There have also been damaging strikes in the SNCF national railways over the refusal to hire more people. The unemployed associations want to have allowances increased to match the 2.7 per cent average rise in wages. They also want the benefits to be applied to those under 25-years-old who have yet to have a first job, while further extending the period over which jobless are entitled to receive assistance.

Yesterday it emerged that Unedic, the unemployed insurance benefit system, would be running a FFr1.5bn ($267m) deficit this year after covering payments to just under 50 per cent of those out of a job. Unedic said the slowdown in 1999 meant it would have a similar deficit next year against budget estimates of a FFr1bn.

Chirac looks set to capitalise on split in National Front

Challenge to Le Pen leadership could give mainstream parties of right a chance to recover lost ground, reports **Robert Graham**

A spectacular split in the ranks of the far-right National Front this week has opened up the possibility of a big shake-up in French politics.

At stake is the Front's 15 per cent share of the national vote. If the split is formalised or the party implodes, commentators believe the mainstream parties of the right can recover ground lost to the Front since it was founded by Jean-Marie Le Pen, a former paratrooper, in 1984.

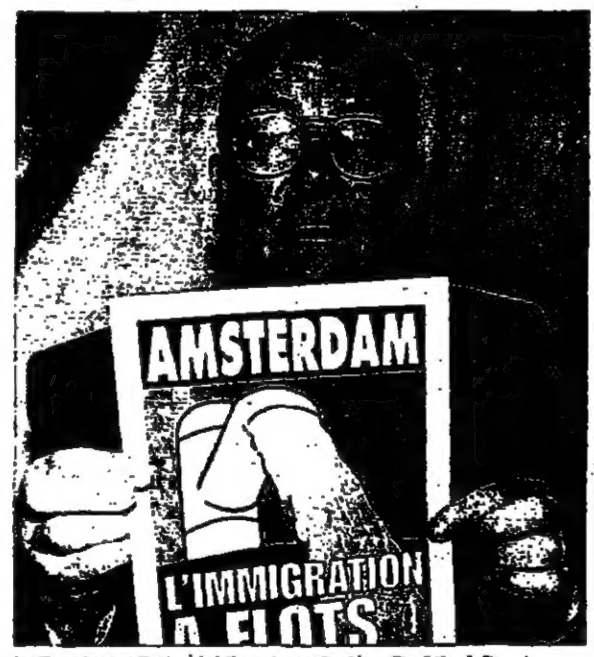
The prospective break-up of the Front also offers a significant opportunity to President Jacques Chirac to extend his control over the fissiparous elements of the right.

His voice has been loud in warning parties against any link-up with the National Front.

"We have been one of the rare countries in the world to spawn a large party of the extreme right," observed the conservative newspaper Le Figaro yesterday.

"This party could make and unmake political majorities, as the right learned to its cost in the parliamentary elections of 1997."

The split in the Front has been provoked by a challenge to Mr Le Pen's leadership from Bruno Mégret, his one-time heir and number two in the party until he was summarily dismissed on Wednesday.



Le Pen: has split the right's vote to the benefit of the left

The 49-year-old Mr Mégret has cast himself in the role of the moderniser seeking to make the party respectable, while the 70 year-old Mr Le Pen tries to hang on to the controls of his hard-won empire.

The core of the Front's vote has come from the same type of people who backed the petty-bourgeois Poujadiste movement of small shopkeepers in the mid-1950s: people on low incomes who feel that their jobs and life-styles are threatened by a fast-changing world.

Mr Le Pen's rhetoric has been virulently anti-Semitic and anti-immigrant.

He has also been a visceral opponent of European integration, seeing it as threatening an end to France's greatness.

The Front has been strongest in southern France, where the majority of 1m-odd disillusioned French former colonists – the *pieds noirs* – were resettled after being forced to leave Algeria when it achieved independence in 1962.

The bitter memories of French defeat in Algeria lie at the heart of Mr Le Pen's bombastic extremism, which has made him a pariah in French politics.

Mr Le Pen has always succeeded in splitting the right's vote, to the benefit of the left – something which the late President François Mitterrand exploited with great skill. Mr Le Pen has preferred this tactic even though it has meant he has rarely had a National Assembly seat and at present possesses none.

After this year's regional elections in March, it looked as though the Front was on the road to political respectability when three administrations made deals to operate with the latter's support.

By coincidence the most important of these deals – in the Rhône-Alpes region – collapsed this week because of breaches in procedure setting up the administration.

The former Gaullist defence minister Charles Millon, who struck the Rhône-Alpes accord with the Front, is now more isolated than ever from his ex-colleagues in the mainstream.

His attempt at self-justification through the formation of a new national party, called The Right, is unlikely to prosper.

Commentators agree that Mr Chirac, who warned the main parties of the right – the Liberal UDF and his own Gaullist RPR – against cutting any deal with the National Front to run regional administrations, has been vindicated by Mr Millon's problems.

Mr Chirac had already recovered from the blow to his prestige caused when he mistakenly called early elections in 1997.

The main politicians of the right have ceased to question his credentials to contest the presidential election in 2002, and the split in the Front provides an excuse for the president to take a more active part in forging unity among the UDF and RPR.

Italian growth prospects dim

By James Blitz in Rome

The prospects for Italian economic growth appeared increasingly bleak yesterday after Confindustria, the employers' federation, downgraded its forecast for 1998 to 1.3 per cent.

In the most pessimistic outlook for the Italian economy yet delivered by an independent organisation, Confindustria, whose forecasts are widely respected, also predicted that economic growth in 1999 would be 1.9 per cent.

Because of more sluggish growth, it warned there would now be no immediate improvement in Italy's budget deficit as a proportion of gross domestic product, predicting the deficit would end 1998 at 2.7 per cent, the same level as last year.

Italian growth is well below the rate of growth of other European Union countries, most of which lie between 2.5 per cent and 3.5 per cent. Carlo Azeglio Ciampi, Italy's treasury minister, said he still believed Italy could achieve 2.5 per cent growth next year. But a range of factors has depressed independent analysts, including the impact of the Asian crisis on Italian markets, a declining return on bond investments, and the declining disposable income of Italian households.

The anomaly of low Italian growth raises fears that it could be difficult for the new European Central Bank to devise the common interest rate policy for the euro-zone. To the surprise of many analysts, the Bank of Italy is the one central bank in the region that has not yet brought its official interest rates down to 3 per cent.

The employers' federation expects Italy's unemployment to remain around 12 per cent.

Confindustria says that declining interest rates should reduce debt interest spending and that the Treasury's 2 per cent budget deficit-to-GDP target should be reached next year.

But it warns that current expenditure as a proportion of GDP will end the year unchanged on 1997 and that Italy's primary surplus excluding interest repayments will drop to 4.7 per cent next year. "This is well below the 5.5 per cent considered to be the pillar of the government's debt reduction strategy," it said.

NEWS DIGEST

DEFICIT CUT PLANNED

Russian budget sent for parliamentary approval

The Russian government yesterday approved the 1999 budget, which increases spending to the military and indexes wages while projecting a deficit cut down to 2.5 per cent of gross domestic product or Rbs102bn ($4.8bn).

The budget – which includes assumptions on economic growth, tax revenues and exchange rates that have been criticised by independent economists – contains planned revenues of Rbs474bn and expenditure of Rbs573bn. It incorporates payment of only $9.5bn of the total $17.5bn in foreign debt servicing owed during 1999.

The revenue figure takes into account controversial modifications to the tax system, including a reduction in the rate of value added tax from its current level of 20 per cent to 15 per cent from the start of March next year.

The proposals must now be approved by the upper and lower Russian houses of parliament, in a process which is expected to run into next year.

● Russia's central bank said yesterday that by December 4, it had foreign exchange and gold reserves of $12.1bn, down $700m from November 27 and one of the sharpest falls in recent weeks. **Andrew Jack, Moscow**

GERMAN UNEMPLOYMENT

Lafontaine pledges 1m cut

Oskar Lafontaine, Germany's finance minister, yesterday set a goal of reducing unemployment by 1m by the next federal election in 2002. His comments followed the launch this week of the Social Democratic-led government's "alliance for jobs" bringing together employers, unions and the government. Germany has about 4m unemployed, about 10 per cent of the workforce.

The government of Helmut Kohl, former chancellor, lost face after retreating from its goal of halving unemployment by 2000. Until yesterday, the new government had refrained from setting targets. But interviewed on ZDF television, Mr Lafontaine said the government would have "failed" if unemployment was not at least 1m lower by 2002.

The SPD had criticised Mr Kohl for not reducing unemployment and similar criteria had to apply to the new government, Mr Lafontaine said. **Ralph Atkins, Bonn**

GERMAN POLL

Supporters of euro increase

Supporters of a single European currency have outnumbered opponents in Germany for the first time, in a poll released less than a month before the euro is to be introduced.

The Psephos Institute poll, scheduled to be published in today's editions of Handelsblatt, the German business daily, found 43 per cent in favour and 41 per cent opposed to the single currency. Last January, the institute found 58 per cent opposed and 30 per cent in favour of joining the currency union. No margin of error or other data was given about the poll.

The euro will be introduced in 11 European Union countries on January 1 next year, although notes and coins will not enter circulation until 2002. **AP, Frankfurt**

METAL INDUSTRY UNIONS

Joint strategy agreed

Metal industry trade unions across the European Union have agreed to a joint collective bargaining strategy at the European level after the launch of the euro next month. The European Metalworkers' Federation (EMF), in which IG Metall, the German union, plays a key role, won unanimous support yesterday at its conference in Frankfurt for a co-ordinated approach to wage negotiations laying down a core demand for cost of living increases with an additional rise for productivity improvements based on changes in working time, training and work reorganisation.

The EMF also secured backing for an expansion of the European works councils as a "powerful lobby for employees at company level", the introduction of basic minimum standards, and collection of common pay data with monitoring of agreements. **Robert Taylor, Employment Editor**

Little harmony in executives' pay packages

By Robert Taylor, Employment Editor

No harmonised European executive pay levels and benefits system is yet emerging as a result of the arrival of the single currency and greater transparency, according to a survey of worldwide rewards published by Towers Perrin, the international management consultants today.

"There has been a lot of rhetoric about harmonised pay structures, particularly in Europe. But far from seeing a European pay market for senior executives emerging, the survey highlights the variety in pay practices," said Duncan Brown, the company's principal. He added the differences reflect the diverse practices of specific country based pay systems.

While local companies in Spain and Sweden make almost no use of long-term pay incentives such as share options, these are common for chief executives in France (30 per cent of basic compensation), Holland (17 per cent) and the UK (38 per cent).

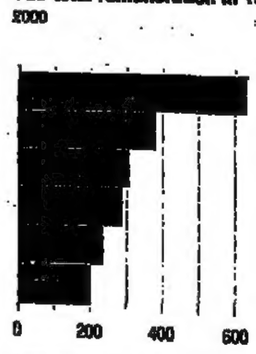
However, the survey does suggest a growing convergence in the provision of annual bonuses for chief executive officers. In all European countries such bonuses are worth between 20 and 30 per cent of basic pay and the percentages changed only by 2-3 per cent over the past year.

Italian chief executives have the largest proportion of their pay in a bonus worth 30 per cent and the French have the lowest at 19 per cent.

The scale of wage and salary levels in Europe and elsewhere for chief executive officers and senior management promises to be moderate for next year, claims the survey, with rises of only between 3 and 5 per cent for European executives.

The survey, which covers executive grades in a wide range of countries both inside and outside the European Union, estimates the "typical" remuneration levels in industrial companies with annual sales of between $250m and $500m.

CEO total remuneration in 1998
$000



Source: Towers Perrin Worldwide Total Rewards

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg (ISSN 0174 7363). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maravigna, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Bradley P. Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

BOND TERMS ACCEPTANCE UNLIKELY

Banks harden line in Russia default talks

By Clay Harris in London and Andrew Jack in Moscow

Western banks said yesterday they were unlikely to accept Russia's terms for restructuring the $16bn of foreign-held domestic debt (GKOs/OFZs) which is in default.

In their strongest public statement since the default four months ago, the 19 European, US and Japanese banks said Russia would "aggravate its financial isolation if it unilaterally imposes restructuring terms on foreign investors".

The banks said no agreement on terms had been reached, directly contradicting a statement to the contrary on Wednesday by Mikhail Zadornov, the finance minister. They said "no definitive terms" had even been presented to the six banks negotiating for the wider group, which represents more than 90 per cent of non-resident holdings of GKOs and OFZs.

Moscow warned not to aggravate its 'financial isolation'

The banks are unhappy not only with the overall deal, worth less than 4 cents on the dollar, but also with the limited uses to which blocked roubles can be put within Russia.

"Without investment opportunities, the banks would see this as a confiscatory exercise," one member of the six-bank negotiating committee said. In spite of discussions last week which "sounded constructive", the banker said, the Russians had not produced any substantive changes.

The only movement, changing the allocation method of $550m from an auction to a *pro rata* distribution, was unacceptable because of the imposition of a 20 per cent discount on the exchange rate, bankers said.

Yesterday's statement illustrates a hardening of opinion among the banks. Fifteen of the 19 had wanted to release the statement on Wednesday, but were swayed by Deutsche Bank, which chairs the negotiating group, into saying only that "a number of key issues" remained to be resolved.

The more forceful draft was put out yesterday by Credit Suisse First Boston, as deputy chair, with the explanation that the German bank's internal publicity department was unable to distribute it in time.

But Deutsche, which annoyed some of its fellow banks last month by announcing that agreement had been reached in principle, has consistently taken a softer line than others. Deutsche said in Frankfurt: "We made our position clear yesterday [Wednesday] and so far there is nothing to add."

Mr Zadornov, meanwhile, said yesterday after finalising the 1999 budget that only $9.5bn out of $17.5bn in foreign debt service due next year would be paid. "Without an easing of the debt burden in 1999 and 2000 and the following years, it is simply not possible for Russia to exist," he said.

On the GKO issue, he said: "All the financial conditions are agreed with the Moscow Club of creditors and with non-resident investors." He said terms were also being finalised for arrangements for compensating domestic investors in GKOs and other securities affected by the collapse of the rouble and a government debt freeze in August.

RUSSIAN POVERTY STUDY SAYS THE BELIEF THAT PEOPLE HAVE RETURNED TO THEIR PEASANT ROOTS IS A MYTH

Poor fail to get relief from dachas

By Andrew Jack in Moscow

Picturesque *dachas* or wooden country cottages may provide welcome weekend breaks for Russia's urban yuppies, but their gardens offer few chances for the country's poor to grow vegetables and shield themselves from the current economic crisis, a group of researchers said yesterday.

Many commentators argue that Russians survive in spite of the high levels of poverty shown in official statistics because they grow their own food in family-owned *dachas* that ring the country's cities. At a recent conference in Moscow, Greg Thain, head of the Russian Market Research Company, said: "*Dacha* owners are starting to dig up their lawns to grow vegetables again."

But researchers at a seminar sponsored by the International Confederation of Free Trade Unions this week claimed the widespread belief that Russians have returned to their peasant roots to survive was a myth.

"To say that the 10 per cent of Russians who are officially malnourished have 'survival strategies' is wrong. Both words are misnomers," said Simon Clarke, a sociology professor from Warwick University in the UK.

From surveys in four Russian cities, his team concluded that the poorest households do not have access to agricultural land, and have neither the time nor the money to grow their own crops.

Those who do grow food tend to be richer, still spend considerable sums on buying food and rarely sell their home-grown vegetables – which go to rot instead.

The researchers argued that the government would do better to encourage the reform of commercial agriculture and provide more effective social assistance to the poor rather than encourage and subsidise petty agricultural production.

Pensioners queue to add their names to a list in hope of receiving money from a charity in Moscow. A new study says the poorest households do not have access to agricultural land Reuters

Their interviews in Samara, Kemerovo, Lyubertsy and Syktyvkar also debunked the belief that many Russians have embraced the market economy and survive through reliance on income from a range of informal activities, such as undeclared second jobs.

The researchers found that only 5 per cent of the urban populations of these cities was regularly involved in an activity other than their official registered jobs, and overall it contributed just 6 per cent of household income. By contrast, a quarter of households depend on pensions and other social benefits for more than half their income.

They concluded that 18 per cent of the workers in the four cities were employed in the "new" private sector as opposed to the state sector or privatised companies, and received wages on average 30 per cent higher than those in these other sectors.

The team warned that policymakers' hopes that the poor could survive through financial support from family and friends was misguided because such income was precarious and only provided for short periods.

Despite anecdotal examples of workers paid in goods that they could re-sell to make additional money, Mr Clarke said most were paid only a small proportion of their salary in kind, and generally in oil, flour or other foodstuffs that they consumed themselves.

US envoy gloomy over Kosovo

By Guy Dinmore in Belgrade

Chris Hill, the US mediator, yesterday gave a bleak assessment of his lack of progress in trying to negotiate a lasting political settlement in the Serbian province of Kosovo.

Mr Hill met Madeleine Albright, US secretary of state, in Paris yesterday and then held talks with senior diplomats of the six-nation Contact Group, comprised of the US, Britain, France, Germany, Italy and Russia.

Western diplomats in Belgrade said it was possible Mr Hill would end his shuttle mission and try to move on to direct talks between the Serbian government and secessionist leaders of the Kosovo Albanian majority.

"You get to a point where you don't get any further by shuttling," one US diplomat commented. But he said it was not clear whether the two sides would agree to face-to-face talks with US participation.

Mr Hill, US ambassador to Macedonia, has spent several months shuttling between Belgrade and Kosovo's capital of Pristina bearing revised drafts of a peace plan that would give the province substantial autonomy.

Politika, Serbia's main official newspaper, yesterday said the Serbian government had branded the latest US draft as "unacceptable". Kosovo's fragmented Albanian leadership has been unanimous in its rejection.

Delivering concessions that averted Nato air strikes, Slobodan Milosevic, president of federal Yugoslavia, agreed two months ago to a partial withdrawal of his forces from Kosovo and to allow international verification of an informal ceasefire and refugee returns.

But Belgrade has since threatened to repeat its summer offensive if the international community fails to restrain the Kosovo Liberation Army. Monitors fear renewed war in the spring if the Hill mission fails.

Interest rate cut unsettles Ireland

By John Murray Brown in Dublin

Last week's co-ordinated interest rate cut by the 11 euro-zone countries was, for Ireland's booming economy, "*just rubbing a bit of salt in* the tail", according to an *Irish central bank official.*

Ireland had already slashed rates in October and November from over 6 per cent to 3.69 per cent before the latest announcement.

That brought Irish rates close to the central bank's target for the year-end of 3.3 per cent, to put it in line with what was expected to be the Franco-German benchmark at the time of the launch of the euro. The additional 0.3 percentage point cut by the core countries to 3 per cent was small beer by comparison, the central bank official indicated.

Figures released yesterday showed *inflation at 2.1 per* cent in November, down *from 2.9 per cent in October,* largely because of the fall in mortgage interest payments following the series of rate cuts.

However, in an interview with the FT on Monday, Wim Duisenberg, president of the European Central Bank, made clear that Ireland, together with Portugal and Spain, had had difficulties with the additional cut "based on their national interests".

The one-size-fits-all interest rate was always problematic for the Irish, at a time when the economy was growing at more than 10 per cent, *credit growth at over* 20 per cent and the growth in *Dublin house prices close* to 40 per cent.

The *latest* cut – co-ordinated among all 11 members – could cause the government to rethink some of its fiscal and income policy targets. Estate agents estimate the rate cut could reverse the impact of the Bacon reforms, which included the end of tax relief on investment property introduced to stifle an over-heating housing market.

Marian Finnegan, economist at Sherry Fitzgerald, says Dublin could see the return of the investors who pulled out of the market, *pushing up price increases* to double digits again next year, *after slow growth in* the last two quarters of 1998.

But Brendan Walsh, economics professor at University College Dublin, says the external environment will help take some of the heat of the Irish economy – particularly the slowdown in the UK, Ireland's main market.

The demographic profile is helping to overcome some of the tightness in the labour market. Net immigration reached 22,800, the highest on record in the year to April, as EU citizens and returning Irish expatriates relocate to take jobs in the booming IT and financial services.

The projection going for*ward is good, with the* increase in the population over the same period of 44,300, the largest since 1979.

However, this week saw further evidence of overheating, with the government appointed jobs commission for the IT sector forecasting a skills gap of 2,300 a year unless new measures are adopted to encourage still more immigration.

China plans big push to reverse export fall

By James Kynge in Beijing

China has set out its economic strategy for 1999 with orders to officials to promote exports in "a thousand and one ways", boost consumer demand and allow an "appropriate" loosening of monetary policy to guide the country through what is expected to be a most challenging year.

No formal growth target for next year was announced after the annual national economic work meeting on Tuesday, but officials said yesterday that Beijing would aim for a "forecast" of between 7 and 8 per cent in 1999.

It is still possible, however, that a more definite growth goal could be released at a later date because high-level economic meetings in Beijing are to continue until Monday.

The decision to break with tradition and set a forecast rather than a target – a word which carries the sense of an order – was driven partly by deep uncertainty over next year's economic outlook and partly by the desire of Zhu Rongji, the premier, to eliminate over-reporting of growth rates by local officials anxious for advancement.

Officials privately acknowledge that the 7.2 per cent growth rate reported in the first nine months of the year significantly overstates reality. Even by official measurements, China is unlikely to attain the 8 per cent 1998 growth target "guaranteed" by Mr Zhu in March. A full year official rate of roughly 7.6 per cent was more likely, officials said.

The meeting stressed the need to tackle China's weak consumer demand, which has led to 14 straight months of price deflation. The retail price index for November fell a year-on-year 2.8 per cent, a slight improvement from the 2.9 per cent fall in October, year-on-year.

Officials have ruled out any big new fiscal stimulus packages to drive the economy next year, though it may take until well into the second half of 1999 before a RMB100bn ($12.1bn) infrastructure spending programme, launched in August, is fully disbursed. There are signs, that the government is ready to ease monetary policy next year as a means to spur consumer demand and reverse price deflation.

"The interest rate cut this week was a sign of the looser money trend for next year," said one official.

China's broad-based M2 money supply rose 16.7 per cent year on year at the end of November, well within the government's target range of 16-18 per cent.

Exports, which have fallen sharply since September and declined 9.7 per cent year-on-year in November, must be boosted by any possible means in 1999, officials said. One way would be to encourage Chinese companies to invest more overseas, another was the permission granted to private companies to conduct their own foreign trade from January 1.

Mr Zhu is understood to have told officials at the work meeting that China cannot afford to see a significant drop in its foreign exchange reserves, despite expectations of lacklustre foreign investment inflows. Beijing is considering freeing access to some new market areas, especially in services, to arouse interest from foreign investors, officials said.

There will also be considerable emphasis laid on the need to preserve the country's trade surplus, meaning that if exports continue to falter, imports may have to be further restricted. Many multinationals in China are already experiencing problems in obtaining sufficient foreign exchange from Chinese banks to buy their imports.

The work meeting also pledged to maintain the stability of the renminbi, China's currency, despite evidence that exporters are now suffering acutely from Asian competition.

Zhu Rongji: fearful of decline in foreign exchange reserves AP

Thailand power plant clashes hurt 70

By Ted Bardacke in Bangkok

Bloody clashes between police and demonstrators protesting against the construction of three new power plants left at least 70 people injured along Thailand's main north-south motorway yesterday.

The protesters' blockade of the motorway was ended later yesterday after a cabinet minister promised that the plants – among the country's first privately owned electricity generating stations and worth over $2bn – would not be built.

The clashes are a worrying sign for the government, which is facing mounting rural discontent over falling commodity prices, a perceived lack of attention from the central government and disregard for environmental protection regulations.

The new coal-fired power plants were due to be built in Prachuab Khiri Khan province, south of the resort town of Hua Hin, by Gulf Electric, a consortium of Edison Mission Energy of the US, Thailand's Lanna Lignite and Siam City Cement, owned by Switzerland's Holderbank; and Union Energy, a consortium of Thailand's Saha Union, the Japanese group Tomen and Imatran Voima Oy of Finland.

Residents in the area fear a duplication of the situation near the Mae Moh coal-fired plant in northern Thailand, where villagers have suffered from lung disease, birth defects and soil and water contamination.

Thousands of villagers began gathering on Tuesday in the provincial capital after several government agencies refused to hear their complaints about the plants.

On Wednesday, still getting no response, they began to block the motorway and were subsequently confronted by about 3,000 police, who drove transport trucks into the crowd.

They lifted their blockade late yesterday after the deputy interior minister, Pinit Charusombat, who has responsibility for land issues but not energy policy, said he would not allow the power plants to be built.

Local police claim that some village environmental groups had been paid by the companies not to oppose the power plant projects, which led more residents to take an interest in the situation and spurred on the protests.

A protest leader, Chintana Keakoa, said she did not believe the government's assurances but wanted to prevent violence.

"I don't believe the government will really scrap the plants, but at this moment I prefer to break up the crowd in order to avert violence and save lives," she said.

When the protests began on Tuesday demonstrators backed by environmental groups burned effigies of Chuan Leekpai, the Thai prime minister and other senior government officials.

Tokyo backs Malaysian bond issue

By Edward Luce, Capital Markets Editor

Malaysia yesterday became the first Asian country to issue a bond guaranteed by the Japanese government under a US$30bn aid plan designed to enable south-east Asian governments to tap the international debt markets.

The Y66.6bn (US$570m) bond, which was arranged by Nomura Securities and Sumitomo, was Malaysia's first visit to the international bond markets. The bond was issued through a special purpose vehicle called Kris, after the traditional Malay ceremonial dagger.

Proceeds from the bond, which is part of a US$2.6bn Japanese aid package for Malaysia, will be converted into a loan which is expected to help Malaysia to recapitalise its troubled banking sector.

Analysts say the offering marks a departure for Malaysia and other Asian governments because it was guaranteed by both Malaysia and Japan's ministry for international trade and industry.

The dual guarantee, which covers 90 per cent of the bond's interest and principal payments, will almost certainly enable the issue to achieve a AAA credit rating from Moody's Investor Services in spite of the fact that the rating agency recently downgraded Japan.

Malaysia, which has a rating of Baa3, the lowest rung on the investment grade ladder, would have been compelled to pay a much higher rate of interest on the bond if it had come to the markets without Japan's guarantee.

Thailand, which earlier this year launched a bond with a partial guarantee from the World Bank, is also planning to launch a Y70bn bond with a Miti guarantee in January.

The bond is part of the US$30bn Miyazawa aid package announced in October by the Japanese finance minister. The plan was devised to help south-east Asian governments raise foreign exchange to compensate for their virtual exclusion from the international bond markets. The package will include direct loans, guaranteed bonds and trade credit guarantees.

Yesterday's bond issue, which had a coupon of 1.2 per cent and a maturity of seven years, follows the success of a $1bn 10-year bond offering by China earlier this week.

Although China had no immediate need of the capital, officials said it wished to demonstrate its ability to raise non-guaranteed finance in the international capital markets. Other Asian governments, including the Philippines and South Korea's export-import bank, plan to issue non-guaranteed dollar bonds in the near future.

The Asian Development Bank and the World Bank plan to step up their use of partial guarantees for Asian borrowers in the next few months. Both have stressed that the use of such guarantees is limited by their relatively high cost in terms of the amount of capital needed to be put aside against the possibility of default.

International Capital Markets, Page 30

A cautionary tale of two contrasting Indian economies

Mark Nicholson explains why officials and economists are in two minds about the country's prospects

India today tells a tale of two economies.

One of them is "among the fastest growing" in the world. In this rosy story, growth this year will be near 6 per cent and the country has happily avoided the effects of the Asian financial crisis, as Atal Behari Vajpayee, the prime minister, lately boasted to a World Economic Forum meeting with "pride and satisfaction".

India's "macroeconomic fundamentals continue to be strong," he said, outlining a multi-point agenda aimed at keeping growth levels between 6 and 7 per cent.

The other version, to which gloomier investors and economists are paying greater heed, is one illustrated by figures last week showing exports down 5 per cent over the first half – and fully 12 per cent down year-on-year in October.

It has also emerged that the government has already exceeded the borrowing targets for the entire fiscal year, which ends in March.

The true tale of India's economy is perhaps a bit of one and worryingly more of the other. Growth of gross domestic product may exceed 5 per cent this year, a respectable performance after 18 volatile months of global crisis. But this is lower than government targets of 6.5-7 per cent and economists are worried about a declining trend.

They believe India may be flirting perilously with danger on both its external and fiscal deficits. HSBC Securities has warned clients that India's fiscal position looks set to "deteriorate sharply", adding that trade and fiscal deficits are "unsustainable at current levels".

"The main focus of worry is the fiscal situation and its ramifications for the external deficit," says Pradeed Srivastava, economist for the semi-autonomous National Council of Applied Economic Research in Delhi. He, like many other non-government economists, believes Yashwant Sinha, finance minister, will overshoot his fiscal target for this year of 5.6 per cent and is likely to end with a fiscal gap exceeding 6.1 per cent of GDP – no improvement on last year's figure.

Gloomier economists, such as those at HSBC, suggest the fiscal gap may even nudge 7 per cent, unless there is a strong second-half recovery in indirect tax receipts, already below target. But this would require an industrial rebound of which there is little sign – industrial output growth April-August fell to 3.5 per cent from 5.5 per cent in the same period a year ago.

Meeting the fiscal target also requires raising the budgeted Rs50bn ($1.2bn) from privatisation. But so far the government has completed just one issue, of stock in Concor, the state rail freight company, sold at a 34 per cent discount to the market price and earning just Rs2.25bn. The sale was completed thanks to concerted buying by state institutions.

Exports are down sharply but growth has remained high

Inflation also remains high, hovering above 8 per cent for wholesale prices, but in the range of 12-15 per cent for consumers. It was not merely rocketing prices for the humble onion, but broader based consumer inflation, which fed the strong vote against the ruling Bharatiya Janata party (BJP) in recent state elections.

Many economists say sustained fiscal weakness will add further ~~pressure~~ to India's ~~external balances~~. The country's falling trade is causing concern. Latest data show the April-October trade gap at $5.8bn, up 116 per cent on the deficit of $2.68bn a year ago. Jardine Fleming, the investment house, recently warned that the trade deficit this year could exceed 5 per cent of GDP.

Stronger invisible flows and other transfers, notably buoyant remittances from overseas workers, are expected to keep the balance of payments at manageable levels. However, most private economists also believe the balance of payments deficit will rise as a proportion of GDP to well above the government's estimate of around 2 per cent – Jardine Fleming puts the figure at 2.6 per cent.

With a host of structural constraints on export growth – including poor infrastructure, import tariff rates among the highest in the world, and continued protection of export-capable small industries - few observers see much prospect of a return to the double-digit export growth which immediately succeeded liberalisation in the early 1990s.

So far, India's poor trade export performance has been saved from disaster by virtue of low global oil prices – India imports more than half of its hydrocarbons. However, as T.N Ninan, editor of Business Standard newspaper, said last weekend, while India's previous external shocks in 1974, 1980 and 1991 were all caused by sudden oil price rises, "now, for the first time in 40 years, India could be heading for a foreign exchange crisis at a time of historically low oil prices... This is new."

India's trade difficulties appear to be structural, and the remedy may lie in further tariff cuts, liberalisation of small scale industries and improved infrastructure. So, too, with the fiscal deficit. Real progress would entail cuts in subsidies – which account for 14 per cent of GDP – raising user charges for utilities, such as power, and sweeping reform of the public sector.

Such moves would be politically difficult at the best of times. But with the fragile BJP-led coalition still smarting from last month's sharp state election reverses, and with mounting discontent within the Hindu nationalist fold over some economic policies – notably the attempt to liberalise the insurance sector – these are not the best of times.

This means some economists are pessimistic. "By the time the world comes out of recession, our fiscal overhang is going to keep tugging us down," says Mr Srivastava. "So we're going to be stuck with 4-5 per cent growth rates for the next 10 years."

Bangladesh to get new bank for small loans

By Rohit Jaggi and David Chazan in Dhaka

A leading Bangladeshi agency providing small loans to the very poor is to launch a commercial bank early next year to fund small-scale entrepreneurs.

BRAC, one of the world's largest non-governmental organisations (NGOs) providing microcredit and other services to those beyond the reach of commercial lending, is, according to its founder and head, Fazle Hasan Abed, getting permission to set up a chartered bank.

"It will be a commercial bank," Mr Abed said yesterday. "The World Bank's private-sector funding arm, the IFC, will invest, and one or two European banks."

The move, a first among the NGOs that provide a large proportion of Bangladeshi services, could also provide a boost for the moribund stock market. "The sponsors would have half the shares and the rest would be floated on the market," Mr Abed said.

Bangladesh's microcredit agencies, which typically provide loans of between $20 and $100 to women among the 50 per cent of the population whose income is below the poverty line and cannot provide collateral, have been hit hard by the recent floods, the worst this century. BRAC, which usually makes a 2-3 per cent return on its microcredit lending, is heading for a 1 per cent deficit this year on loans of $220m, according to Mr Abed.

Grameen Bank, another pioneer of microcredit, this week secured $20m of funding from the central bank at 8 per cent, to be repaid in a year, to bolster its lending to the poor.

BRAC hopes to repeat its long-term success with the very poor for the less poor, and provide a much-needed economic stimulus.

Boom in mergers and acquisitions

By Krishna Guha in Bombay

India is experiencing an unprecedented boom in mergers and acquisitions as companies restructure to face competition, according to a new study by the country's stock market regulator.

There were more takeover bids in the first nine months of the current financial year than in either of the preceding two years, the most active on record.

There were 46 public offers, says the study by the Securities and Exchange Board of India (Sebi), and although this is small by international standards, it marks a significant acceleration in the pace of India's industrial restructuring.

"This is happening very quietly," said D.R. Mehta, chairman of Sebi. "Companies are reshaping themselves in this competitive environment."

The Sebi report does not declare the value of the deals. However, it estimates that acquiring companies have paid a total premium of about Rs34bn ($800m) to shareholders of target companies so far this decade – much of it in the last two years.

"This is the benefit to the investor," said Mr Mehta.

The spate of restructuring provides good business for management consultants and offers a glimmer of hope for investment banks, dismayed by the slow progress of privatisation and waning interest of portfolio investors.

"There is more [corporate advisory] business than I can handle," said the head of one investment bank in Bombay.

Mr Mehta said most takeover deals in India were friendly, but there were early signs of a more aggressive acquisition culture developing. People had gone to the market with hostile bids, he said.

In the past year two landmark hostile bids – an unsuccessful bid by Sterlite Industries for aluminium company Indal, and a successful bid by India Cements for Raasi Cement – sent shockwaves through India's business community.

A further five hostile bids are currently under consideration by regulators and the courts.

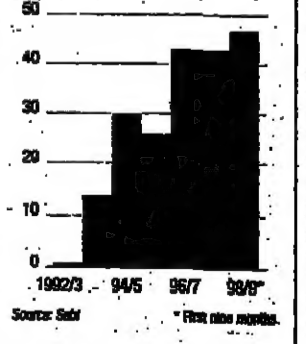
The Securities and Exchange Board found a big increase in the number of agreed transfers of equity between promoters or founding shareholders – often inspired by a desire to consolidate control and prevent a hostile approach.

While the impetus for asset sales is rising competition and slowing domestic growth, the process of acquisition has been eased by a new takeover code, introduced in February last year.

"It is a much simpler process now, almost automatic," said Mr Mehta. "From our side the code is likely to be further liberalised."

However, he said, too many bids were still tied up by litigation, which the regulator is powerless to prevent. "The moment there is a hostile bid the effected party goes to the courts."

India: mergers & acquisitions
Number of public offers



Source: Sebi * First nine months

Japanese property agency unable to spend its money

By Michiyo Nakamoto in Tokyo

A government body entrusted with buying unused property to stimulate the Japanese real estate market has spent less than a third of the funds it is expected to use by the end of the fiscal year in March, the construction ministry says. The Organisation for Promoting Urban Development (OPUD) has used Y463bn ($3.9bn) of its Y1,500bn fund.

Revitalising the real estate sector is considered crucial for Japan's economy. A significant proportion of Japanese banks' problem loans have real estate as collateral.

Banks have taken measures to write off some of their problem loans, but the underlying real estate is often unused. In Tokyo, 7.1 per cent of real estate is under-utilised or not used at all, according to OPUD.

OPUD is supposed to buy such properties, mainly in urban areas, until a developer is found to redevelop them. But owners' reluctance to take a loss and problems caused by multiple claims have stymied OPUD's operations.

"There are hardly any properties that are completely clean," says Shuichi Masuda, a manager at OPUD. "Even if the owner wants to sell, banks might be reluctant and there may be people in the building on the property unwilling to move. There are some very scary people too," he says, referring to the many gangsters who own problem properties.

OPUD has been given until next March to buy the properties at market value, which it must offload within 10 years of purchase. Before it can buy any property, however, it is required to find a developer willing to buy the property from it at book value within 10 years. Of the 91 properties OPUD has acquired since 1994, only 18 have been developed so far.

IRIDIUM SUPPLIER UN[illegible]E TO DELIVER HANDSETS □ FURTHER SETBACK TO $5bn LAUNCH

Technical problems hit launch of global mobile phones

By Christopher Price

Iridium, the world's first hand-held satellite phone operator, which was forced to delay its launch by a month in October, has suffered a further setback: one of its two handset suppliers is unable to deliver any telephones because of technical problems.

There have also been delays in the handsets from the other manufacturer reaching the cellular operators in countries which sell the Iridium service.

The result, six weeks after the $5bn Iridium service was officially launched, is that limited supplies of phones have only just gone on sale in much of Europe and the US, according to cellular phone dealers, and Iridium's service partners.

However, Orange, Iridium's only UK service provider, said yesterday that it would not start selling the service until the beginning of February because of the delays in receiving handsets. It added that an unspecified number of orders had been received.

Iridium, which is based in Washington, said software problems in the complex handsets, being experienced by Kyocera, the Japanese telecommunications equipment manufacturer, were partly to blame.

Iridium said that the poor sales were due to supply difficulties and not to customer indifference to the service, which allows phone calls to be made or received virtually anywhere in the world. "Demand far exceeds supply," the company said. The telephones sell for around $3,000.

In addition, Motorola, the US electronics group and a significant shareholder in Iridium, has shipped 10,000 handsets since the service launched on November 1, although it could not say how many had arrived with retailers.

BearCom, the biggest telecoms reseller in the US, said it had sold 200 handsets, with a further 100 orders to be completed. "There have been problems with supply, but the handsets are beginning to come through now," the company said.

However, The Car Phone Warehouse, one of the largest UK phone retailers, said that Iridium had postponed the delivery date of the handsets at least twice. It did not know when it would finally receive a delivery.

Iridium has budgeted an advertising and marketing campaign worth $140m in its launch year to publicise the service and build the Iridium brand. Its target markets include business travellers and offshore industries.

This latest setback comes after a series of mishaps for the fledgling satellite mobile phone industry. In the summer, ICO Global Communications, a UK-based operator hoping to launch a rival service to Iridium, had a disappointing public listing after the US group suffered a failure of one of its satellites.

This was followed by the destruction of almost a fifth of the satellite constellation belonging to Globalstar, another rival operator, shortly after launch. Then, in September, Iridium announced the postponement of its service opening for a month because of technical difficulties.

India's $1bn defence contract emerges from bureaucratic thicket - after 12 years

Politics and officialdom have long stymied the Indian air force's pressing need for a new trainer jet, reports **Mark Nicholson**

Few air forces in the world have a more pressing case for the purchase of a new fast jet training aircraft than India's. Since 1991, more than 172 jet fighters have crashed during training, most of them MiG-21s, killing more than 60 young pilots. India's air force loses 4 aircraft for every 10,000 hours flying time, against 0.21 for the British air force.

But despite these appalling figures, few among the British, French and Russian companies at India's international airshow this week grew unduly excited when George Fernandes, defence minister, promised his government was about to award a $1bn-plus contract to purchase a new advanced jet trainer (AJT).

The reason is that India has been negotiating with British Aerospace and Dassault, its French rival, for more than 12 years. The delay is not, apparently, due to lack of money. "I don't think there are any budgetary constraints where defence is concerned," Mr Fernandes said. Instead, it appears a question of bureaucracy – India is slower than most countries to digest and process defence deals – and, particularly, politics.

With one exception, India's three armed services have largely gone without major foreign arms purchases for at least a decade – the exception being the $1bn order of 48 Russian-made Su-30 multi-role fighter aircraft in 1996. Part of the reason goes back to the previous biggest arms deal, the purchase of Bofors artillery from Sweden in the late 1980s – an infamous deal in which allegations of "kickbacks" received by the then Congress government helped bring down Rajiv Gandhi's government.

Bureaucratic caution and political wariness since has, in the eyes of many Indian defence analysts, helped leave the armed services underequipped for more than a decade.

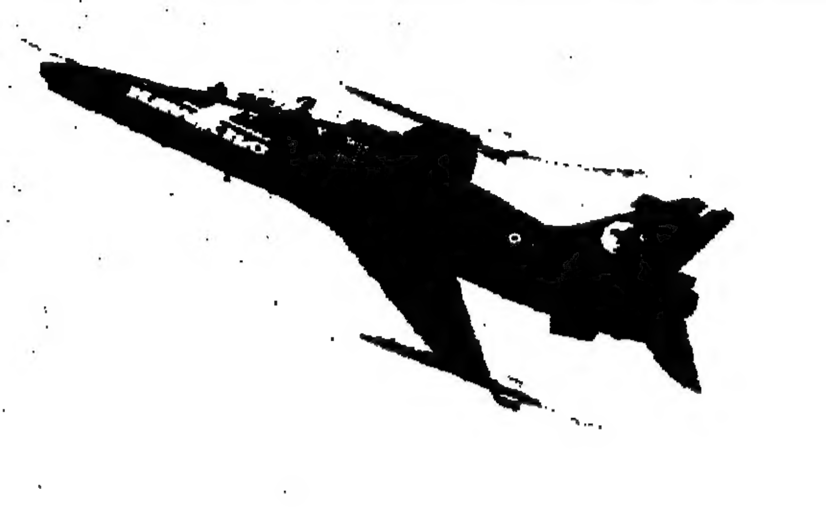
The question at Yelahanka airbase outside Bangalore this week was whether the rising air force death toll, and Mr Fernandes' reputation for being the most ardent champion of the armed forces of any defence minister in decades, might finally overcome such caution.

"No timeframe has been fixed," he said assuringly, "but we have had discussions at various levels and matters have now reached a point where only a decision has to be made."

Western trade representatives said they took this to mean that Mr Fernandes would, for the first time, institute a formal bidding process for the jet trainer programme. "In 12 years we've had only one interim price negotiation," said one western official. "Now it looks like we may finally be looking at a formal competition after 12 years of consideration."

BAe is offering its Hawk-100 twin seat trainer and Dassault a similarly configured Alpha Jet. Also in the running is a recent contender, MiG-Mapo, which is selling its prototype MiG-AT trainer. All three have offered licensed manufacturing in India of their jets on winning the deal, Dassault's offer is the first it has made anywhere.

The Hawk is widely believed to be the air force's preferred choice, and is the most widely used of the trio.



BAe's Hawk trainer jet, favourite with India's air force, is rivalled by Dassault's Alpha and the MiG-AT

BAe has recently concluded deals with the Australian, Canadian and South African air forces to supply the Hawk, 750 of which are in service with 17 air forces. The Hawk also uses a modified version of the Rolls-Royce Adour engine, already being built in India for the air force's existing Jaguar fleet.

The Alpha Jet, meanwhile, has not been built for eight years, though Dassault says there are more than 500 in service worldwide. The MiG is the least tried, having only begun tests in 1996 – but, like most Russian armaments would be relatively cheap. MiG-Mapo is suggesting a price of around $12m a jet. India is seeking, at first, around 66 trainers.

But even if Mr Fernandes is able to bring the deliberations to a decision – and many doubt whether the fragile Bharatiya Janata party coalition government will be brave enough to award a $1bn defence deal – politics may again intrude to determine the choice of supplier. This time, however, it is likely to be the politics of India's foreign relationships following its nuclear tests in May.

Neither France, Britain nor Russia imposed sanctions on India after the blasts. But the Indian government has perceived each country's reaction to India's nuclear adventure quite differently. The government hastaken a dim view of what it saw as a hardline and negative reaction from the UK. By contrast, Atal Behari Vajpayee, the prime minister, stopped off for what was reportedly a very cordial series of meetings in Paris recently, on his way home from addressing the UN General Assembly.

Meanwhile, Yevgeny Primakov, Russia's prime minister, is due to arrive in Delhi later this month, among other things to sign a 10-year extension to a long-standing defence co-operation agreement.

Russia, India's old Cold War ally and desperate for markets for its arms, has already promised a series of joint weapons programmes, and confirmed plans to supply two nuclear power plants to India shortly after Delhi's test blasts. Since politics has effectively held up the decision on one of India's most pressing defence needs, it might not be surprising if politics also determined its outcome.

NEWS DIGEST

LEADER OF WORLD TRADE BODY

WTO members fail to agree on new director

World Trade Organisation members yesterday failed to agree on a new director general to take over next May from Renato Ruggiero of Italy. Another round of consultations will take place over the coming week, but no decision is now expected until early next year.

The two trade diplomats in charge of sounding out members' views have apparently made little headway since last week in identifying a consensus on one of the four candidates. In particular, the US and European Union have still not made up their minds whom to support.

Several countries yesterday called on Celso Lafer of Brazil and William Rossier of Switzerland to make known the results of their consultations so far, which would enable horsetrading to begin. Egypt and Pakistan have called for a vote if consensus is not achieved by a fixed date – but this is strongly opposed by other WTO members which believe voting would be divisive. All five heads of the WTO and Gatt, its predecessor, were chosen by consensus.

The four candidates are Hassan Abuyoub, former Moroccan trade minister, Roy MacLaren, former Canadian trade minister, Mike Moore, ex-premier of New Zealand and Supachai Panitchpakdi, Thailand's deputy prime minister. **Frances Williams, Geneva**

DATA PROTECTION

EU seeks US concessions

The US needs to offer greater concessions to meet EU concerns about data protection if the two sides are to reach an agreement to allow personal information to flow freely across the Atlantic, a European Commission official said yesterday. "The US needs to do a bit more," said the official. "Our assessment of the situation is that there is more improvement needed and more clarification of US principles." Negotiators from the EU and the US are trying to find a way to bring US data protection arrangements up to the standards of a new EU law that came into effect in October. The law empowers national data protection regulators to halt exports of personal data to countries which they judge do not have adequate protection arrangements. The US currently falls into this category, but is working on a system under which companies would voluntarily sign up. **Emma Tucker, Brussels**

ECUADOR AND PERU

Peace deal may triple trade

Trade between Ecuador and Peru could double or even triple to $900m over the next two or three years, following October's peace agreement between the two countries which ended a 56-year border dispute, according to businessmen.

"Lifting customs duties is the indispensable prerequisite to double trade next year, which is totally feasible," said Luis Maldonado, president of Fedexpor, an Ecuadorian exporters' organisation.

A border integration treaty, forming part of the overall peace deal and committing the two countries to liberalise trade, was ratified by Ecuador's president Jamil Mahuad this week. Agreement on ending the duties could be reached in as little as 90 days. **Justine Newsome, Quito**

E EUROPE MARKETS 'FLOODED'

EU cuts pork subsidy

The European Union has halved its export refunds on pork to 10 countries after the Czech Republic and Hungary said the EU had been flooding their markets with cheap meat, the European Commission said.

The cut in the subsidy would apply to EU pork exports destined for Poland, Lithuania, Latvia, Bulgaria, Estonia, Hungary, the Czech Republic, Slovakia, Romania and Slovenia. The refund for carcasses and main cuts would fall to 20 Ecus per 100 kg from 40 Ecus while the refund for pork bellies would drop to 13 Ecus per 100 kg from 25 Ecus, it said. **Reuter, Brussels**

Australia forecasts boost for tourism

By Lisa Murray in Sydney

Growth in tourism from Europe and the US will offset a decline in the number of Asian tourists visiting Australia, according to new forecasts.

The Tourism Forecasting Council predicted the number of visitors to Australia would grow by an annual average of nearly 6 per cent, reaching 7.7m in 2007. Among Australia's traditional markets, the UK is expected to grow at about 6.4 per cent annually, contributing just over 1.6m visitors, while the North American market with an average annual growth rate of 4.5 per cent would contribute 611,000 visitors.

Driving the trend were favourable exchange rates, increased international exposure as a result of Sydney hosting the 2000 Games and a general promotional shift back to traditional western markets, said industry leaders.

China is shaping up as Australia's largest potential market with 45 per cent growth forecast for 1999. Central to this, Australia is in the process of gaining "approved destination status" from the Chinese government which would allow Chinese citizens to holiday in Australia.

The 2000 Olympics, however, are expected to be a bigger draw for European and North American markets. Between 1997 and 2004, the Games are expected to deliver an additional 1.6m visitors to Australia and generate $6.1bn.

The forecasts were supported by official figures published last week, which showed visitor nights spent in Australia by US residents jumped by nearly one third.

Visitor nights from the UK also recorded strong growth of nearly 20 per cent, while expenditure by both groups increased significantly.

The shift in promotional focus was prompted by recent Asian economic turmoil which slashed the region's inbound tourism. But Asia still offered the greatest long-term potential of Australia's source markets, said John Morse, managing director of the government's Australian Tourist Commission.

While total visitor numbers from Asia fell by about 25 per cent in the 1998 first half, the industry expected key regional markets to return to growth within the next two years, he said.

BRITISH LEGAL SYSTEM GENERAL CLAIMS JUDGE DID NOT DISCLOSE CONNECTION WITH HUMAN RIGHTS GROUP

Lords to reconsider immunity ruling

By John Mason and Andrew Parker in London

The House of Lords, the UK's most senior court, will next Tuesday consider overturning its landmark ruling that General Augusto Pinochet does not have immunity from prosecution.

In a move without precedent in English legal history, the law lords last night agreed to hear a petition from the former Chilean dictator's lawyers that the ruling should be overturned and a fresh hearing held in front of a panel of different judges.

The government, meanwhile, yesterday sought to limit the damage to Anglo-Chilean trade following Britain's decision to clear the way for the extradition of Gen Pinochet to Spain.

Jack Straw, home secretary, authorised the start of extradition proceedings against Gen Pinochet on Wednesday. Although Mr Straw said Gen Pinochet should not be tried for the offence of genocide, Baltasar Garzón, the Spanish investigating judge pursuing the case, maintained the charge in a formal indictment issued yesterday.

The move by the House of Lords follows the discovery that Lord Hoffman, one of the five judges involved, had failed to disclose his connections with a charity run by Amnesty International, a human rights group involved in seeking Gen Pinochet's extradition to Spain.

Any decision to overturn the original decision, which denied Gen Pinochet immunity from prosecution as a former head of state, would be without precedent and widely regarded as an extraordinary legal embarrassment.

"It would make the English legal system a complete laughing stock throughout the world," one senior QC said.

It would also throw into uncertainty the fate of Gen Pinochet. A new panel of judges could bring in a different verdict on whether he is entitled to immunity as a former head of state. Such a ruling would enable Gen Pinochet to return to Chile immediately.

Next week's hearing, in front of five law lords, is expected to last two days, with their ruling following soon after. Lawyers for both Gen Pinochet and the Spanish government are expected to argue their cases.

Yesterday Robin Cook, foreign secretary, and George Robertson, defence secretary, wrote to their Chilean opposite numbers stressing their desire to maintain strong relations between the two countries.

However, the UK defence manufacturers association warned that Britain risked losing lucrative contracts because of the affair.

Ministry of Defence officials also acknowledged the gravity of the diplomatic crisis by comparing it to the Gulf war and the Falklands conflict.

MADRID NO CHARGE OF GENOCIDE

'Terrorism' is key word for trial in Spain

By David White in Madrid

Prospects for trying Augusto Pinochet in Spain now rest mainly on charges that human rights abuses during his 17-year rule in Chile can be classified as "terrorism", according to Spanish legal experts closely involved in the case.

This follows the failure of attempts to establish the main charge against the ex-dictator as "genocide", in the bid to have the former dictator extradited from Britain to Spain.

In letting extradition proceedings go ahead on Wednesday, Jack Straw, UK home secretary, specifically ruled out the grounds of genocide while accepting a series of other charges. These were "offences equivalent to UK offences of attempted murder, conspiracy to murder, torture, conspiracy to torture, hostage-taking and conspiracy to take hostages".

This means in principle that if Gen Pinochet eventually goes to Spain after the expected series of UK court hearings, he cannot be tried for genocide as the Spanish case has argued so far.

An extradited person can be tried only for offences cited in the extradition decision.

However, Baltasar Garzón, the Spanish investigating judge pursuing the case, maintained the genocide charge in a 285-page formal indictment issued yesterday. The legal experts said this was aimed at keeping options open, especially if there were a move on extradition to Chile instead of Spain – in this case, the genocide charges might still apply.

The definition issue is crucial for a Spanish court to be deemed competent under Spanish law.

Spain's Organic Law on the Judiciary gives courts jurisdiction for offences committed abroad if the accused are Spanish nationals or, in specific instances, if they are foreigners.

Alongside crimes such as counterfeiting money, piracy and hijacking, these instances include both genocide and terrorism.

Whether the 3,000 deaths for which Gen Pinochet is alleged to have been responsible constitute genocide has been called into question by Spanish public prosecutors, who have repeatedly challenged Mr Garzón's right to pursue the case.

In his extradition bid, which Spain's centre-right government reluctantly presented last month, Mr Garzón sought to justify use of the term to cover elimination of political opponents.

This would have brought all the charges under a single heading. Spain's national court supported his interpretation.

Assuming the case goes ahead, Mr Garzón will now switch the focus to his other overall charge of terrorism, relying on evidence that Gen Pinochet set up a "criminal organisation" with military regimes in Argentina and other Latin American countries in order to pursue political opponents through the so-called Operation Condor.

The experts said the charges cited by Mr Straw could fit within the definition of terrorism, which was not itself specified as a crime in UK law.

Mr Garzón's formal indictment of Gen Pinochet is one of the last stages in the preliminary process before committing someone for trial.

The experts dismissed reports that the controversial investigating judge was about to move off the case.

They said a promotion to presiding judge at the criminal chamber of Spain's national court was unlikely.

CHILEAN RIGHT POLITICIANS AND BUSINESS REMAIN LOYAL

General's plight blamed on socialist conspiracy

By Imogen Mark in Santiago

Chile has not seemed so polarised since the military coup led by General Augusto Pinochet in 1973 unleashed years of violence and reprisals.

The private sector and the political right feel shocked and betrayed by the general's arrest, and they blame an international socialist conspiracy. Chilean Socialists, led by Ricardo Lagos, have undermined the government's efforts to get the general released, they say.

The Chilean stock market on Wednesday said it all. When news came through that the British home secretary would allow extradition proceedings against Gen Pinochet, the IPSA index of leading stocks immediately fell.

"I think the market interprets a political event as having economic implications and the IPSA is anticipating them," said Guillermo Villaseca, president of the Tanner brokerage group. Some foreign investors would put plans on hold for a month or two, he said, in case there were violent reactions from the general's supporters that could lead to reprisals by the left.

In the longer term, the damage could be more serious, according to Pablo Zalaquett, president of Generación Empresarial, a business-with-ethics organisation. "If [Gen] Pinochet doesn't come back, and Lagos is elected [in next December's presidential elections], the business community won't make life easy for him." If Lagos wins, says Mr Zalaquett, Chilean investors and entrepreneurs will move their money out of the country – "and not only because there are great opportunities in Brazil or Mexico or Argentina". Business leaders have streamed to London to see Gen Pinochet.

Mr Zalaquett explains: "You have to understand Pinochet in the context of Latin America in the 1970s and 1980s. He did a lot for the country, including ethically – he wasn't corrupt, he surrounded himself with the best people. He did a lot for poor people – it wasn't a case of economic progress only for a few. Pinochet's achievements are the greatest among all the other military governments of that period."

But, asks Sebastian Edwards, a Chilean economist based in California, how long can the Chilean right continue seeing support for Pinochet as proof of support for a free market? "I've been surprised by the strength of the loyalty of the private sector and the political right to Pinochet," he says. "I thought he was an anachronism, but this is redividing Chile along lines we thought] had long been lost in the country's history."

The Chilean left has matured, he says. "It is willing to accept that many aspects of Pinochet's legacy – the economic reforms, the modernisations – are very positive."

There are many professional 30-somethings like Mr Zalaquett who grew up during Gen Pinochet's regime, but who have studied and lived outside Chile for a few years, and can look at its past more objectively than their elders.

But for older generations of the general's supporters, the long campaign by human rights activists shows "there is no spirit of true justice [in them] but only hatred and vengeance" and leftwing politicians have adopted the "attitude of victims", according to a declaration published yesterday by a group of businessmen and other supporters, called the "committee for the honour and dignity of Chile".

MERCOSUR SOVEREIGNTY 'ESSENTIAL FOR CONDUCT OF RELATIONS'

Pinochet case dominates trade group summit

By Geoff Dyer in Rio de Janeiro

The fate of Augusto Pinochet, the former Chilean dictator, continued to dominate proceedings yesterday at the presidential summit of Mercosur, the South American trade group.

Eduardo Frei, president of Chile, reiterated that his government would use all legal means to secure the release of Mr Pinochet. "We energetically reject his arrest which is a flagrant abuse of Chilean sovereignty," he said. "We are defending principles of international law, not individuals."

A declaration signed by the Mercosur heads of state said national sovereignty was essential for the conduct of international relations. However, after objections from Brazil, a compromise statement drew short of directly criticising the British government's decision to start extradition proceedings against Gen Pinochet.

Yesterday's compromise declaration on human rights backed the Chilean position about national sovereignty by criticising the "unilateral and extra-territorial application of national laws". However, it added: "The leaders support the progressive development of of international norms on the criminal responsibility of individuals who commit crimes of international transcendence."


President Cardoso of Brazil: refused public backing for efforts to release Gen Pinochet

The Pinochet dispute has distracted attention from the slow progress on further trade liberalisation between the Mercosur countries, as economic growth in the region begins to fall sharply in the wake of the international economic crisis.

Mercosur consists of Brazil, Argentina, Uruguay and Paraguay. Bolivia and Chile are associate members.

The Pinochet case became a political minefield for Mercosur after Mr Frei pushed for a strong statement of support from the group. However Fernando Henrique Cardoso, Brazil's president, who was an exile from his country's own military dictatorship, refused publicly to back efforts to release Gen Pinochet. "I reject all dictatorships and dictators," was all he would say yesterday.

Although the creation of Mercosur has led to a dramatic rise in trade in what was a heavily protectionist region, the financial crisis in Brazil, which has sent the region's largest economy into recession, has prompted a growing number of disputes between the trading partners, notably between Brazil and Argentina.

In the most notable success of the summit, Argentina and Brazil agreed on a new trade regime for the car industry, which has provoked disputes within Mercosur and which has been criticised by the US and the European Union.

The two countries agreed to apply a common external tariff of 35 per cent on car imports – Brazil currently charges 49 per cent and Argentina 33.5 per cent. Cars manufactured in Mercosur should have 60 per cent local content and automotive parts will have a 14–18 per cent import tariff.

HOUSE IMPEACHMENT HEARINGS COMMITTEE IS EXPECTED TO APPROVE AT LEAST ONE ARTICLE ON PERJURY CHARGES

Clash over release of Clinton videotape

By Mark Suzman in Washington

The White House and Republicans clashed yesterday over the release of videotaped testimony by President Bill Clinton, as the judiciary committee of the US House of Representatives moved closer to recommending his impeachment.

Over objections from the White House, the committee approved the release of the videotape of Mr Clinton's January deposition in the Paula Jones sexual harassment case.

Republican investigators hope to use the tape to reinforce their charge that Mr Clinton lied in sworn testimony about his affair with Monica Lewinsky.

The move came as both sides launched closing arguments in the inquiry.

After presentations from lawyers, members were planning to begin formal debate on four articles of impeachment charging Mr Clinton with perjury, obstruction of justice and abuse of power relating to the scandal.

The committee is expected to approve at least one article of impeachment on perjury charges. However, it remains unclear whether enough Republican moderates will concur with the committee's recommendation for the full House to impeach Mr Clinton and refer matter to the Senate for a trial.

Newt Gingrich, outgoing speaker, said the House would meet next Thursday to debate any recommendations the committee makes.

Neither Mr Gingrich nor Bob Livingston, his successor, is willing to chair the potentially divisive debate, so proceedings will be presided over by Ray LaHood, an Illinois congressman with a reputation for fairness.

Decision to air videotape was 'political theatre' – Clinton's press secretary

Joe Lockhart, Mr Clinton's press secretary, dismissed the decision to air the videotape as "political theatre" and said it was unlikely the president would make any statement on the matter before leaving for the Middle East later today.

However, he said it was possible Mr Clinton would talk to some members of Congress who remain undecided on the matter.

To pre-empt the Republican use of the testimony, Abbe Lowell, the committee's chief Democratic counsel, opened a final defence of Mr Clinton by playing a separate section of the tape.

In this, Ms Jones's lawyers debated at length with the presiding judge and Mr Clinton's counsel over a tortuous definition of sexual relations.

Mr Lowell argued that it was absurd to consider impeaching a president on the basis of lying in response to a definition that not even several lawyers and a judge could properly understand.

Drawing directly on testimony by Ms Lewinsky and other principals in the case, Mr Lowell also contested many of the charges laid out in the proposed impeachment articles.

"We should be doing better than filing charges that would be thrown out for vagueness in every court in the land," he said.

Aid boost for Mitch's victims

By James Wilson in Washington

Central American leaders yesterday embarked on a two-day meeting in Washington to seek help for rebuilding their countries after the devastation of Hurricane Mitch, buoyed by further relief on debt service payments and the announcement of concessional funds to help recovery.

The US said it would lift from 67 to 90 per cent the proportion of Nicaragua's debt it was willing to forgive, and would forgive 67 per cent for Honduras when it signed an expected agreement with the International Monetary Fund.

The Paris Club of creditor nations, which met in the French capital on Wednesday, also said it had decided to defer all payments for the next three years by Nicaragua and Honduras, the two countries worst affected by the hurricane.

In Nicaragua's case the club said the move would defer the repayment of more than $100m.

The Paris Club also said it was willing in the future to give "Lyons terms" to Nicaragua, amounting to an 80 per cent reduction in the net present value of its eligible debt, as part of its inclusion in a debt relief programme for highly indebted poor countries (HIPCs).

For Honduras the club said it would enter negotiations to grant 67 per cent debt reduction, once the country signed an IMF agreement and embarked on the HIPC initiative.

However the relief does not go as far as that promised by some individual lenders. Spain has said it would write off payments due until 2001.

The World Bank said yesterday it would provide $1bn for Honduras and Nicaragua for short-term reconstruction and for longer-term measures, including environmental management to mitigate the effects of any future disasters.

Meanwhile, Norway became the first country to contribute to the Central American emergency trust fund, set up to help Honduras, Nicaragua, El Salvador and Guatemala meet their debt service payments to multilateral donors.

The meeting in Washington, hosted by the Inter-American Development Bank, is bringing together Central American leaders with bilateral and multilateral donors and aid agencies.

Today, more donors are set to indicate their likely support for the countries affected by the hurricane, which killed 10,000 people and cost the countries $5.4bn in destroyed infrastructure and lost economic production.

Puerto Ricans eye referendum

By Canute James

Puerto Rican leaders are looking to Sunday's referendum on ties with the US to help transform their island's identity – even though the poll itself will have no official standing.

The vote was called by Pedro Rossello, the Caribbean island's governor, who hopes a show of support from voters for turning Puerto Rico into the 51st US state will force legislators in Washington to order a binding plebiscite.

The island's administration resisted appeals from the opposition to postpone the vote following a hurricane that caused extensive damage in September. This year is the centenary of the US seizure of Puerto Rico from Spain.

The island of 3.6m people has a quasi-colonial "commonwealth" relationship with the US.

Islanders vote in presidential primaries, but not in general elections. They have one non-voting representative in Washington, and do not pay federal taxes. Although Puerto Ricans serve in the US army, the island sends its own teams to the Olympic games. Efforts by Mr Rossello to get Congress to approve a binding plebiscite have foundered on concerns in Washington over the desirability of Puerto Rico joining the Union. The House of Representatives approved such a plebiscite by a narrow margin earlier this year, but the Senate is yet to consider it.

Sunday's referendum will allow voters to register support for statehood, independence, an enhanced commonwealth relationship, or for none of these options.

The main political opposition, the Popular Democratic party, advocates an enhancement of the current relationship with the US, but is asking supporters to vote for none of the options, as a protest against the referendum.

Recent opinion polls have suggested that support for statehood is 37 per cent, followed by 24 per cent for the status quo, while 3 per cent support independence.

Supporters of statehood, led by the ruling New Progressive party, have been encouraged by indications of falling support for the status quo. In a referendum in 1952, 80 per cent supported a commonwealth relationship. In the most recent plebiscite, in 1993, that was down to 48 per cent support, while 46 per cent backed statehood.

Supporters of independence contend that Puerto Rico is culturally a part of Latin America and too different from the US to fit easily as a state or to continue as part of a commonwealth.

NEWS DIGEST

IMF AID FOR BRAZIL

Senate clears way for first tranche of loan

The Brazilian Senate yesterday approved the $41.5bn emergency financial package led by the International Monetary Fund, opening the way for the government to draw down the first tranche of the loan.

The government needed Senate approval only for the $14.5bn of the package which has been provided by 20 governments led by the US, but it put the entire loan before Congress to prevent future attacks on the legitimacy of the deal. Ministers said last week they would draw down most of the $5.3bn first tranche of IMF money once the Senate had approved the loan, having initially said the funds would not be immediately necessary.

Money has continued to flow out of Brazil through the foreign exchange market over the past week, despite the approval by the IMF board last week of the $41.5bn loan. Brazil's reserves, which were around $70bn before the Russian default in August, are now around $40bn.
Geoff Dyer, Rio de Janeiro

ILO REGIONAL REPORT

Unemployment 'will hit 9.5%'

The Lima-based regional headquarters of the International Labour Office is predicting that unemployment across the continentwill reach 9.5 per cent next year if the international financial crisis persists. That would be a rise of almost two full percentage points over last year's figure.

Not surprisingly, Brazil has been hit worst by the global crisis with unemployment levels rising to 8.5 per cent while Colombia – with more than 15 per cent of the economically active population out of work – continues to register the highest jobless rate. Even Chile, where unemployment has consistently contracted as the economy has grown, registers an upturn this year.

■ Cofide, Peru's state finance development bank, stepped in this week to inject some $60m of fresh capital into the beleaguered Banco Latino, ranked sixth by deposits in the Peruvian system. The wholly Peruvian-owned Latino has been seeking a strategic partner for some time.
Sally Bowen, Lima

SMOKERS' HEALTHCARE

Brazil to sue manufacturers

Brazil says it intends to join other Latin American countries in bringing legal action in the US to force tobacco companies to cover the cost of treating smokers.

A Brazilian health ministry official said yesterday the government had decided to go ahead with litigation. However, he said, "We are at a very early stage and a lot still has to be done. The calculations [of damages] and costs to the health service caused by tobacco have not been concluded yet. We are looking into more firms [to represent the government]." **John Barham, São Paulo**

On the web today
● Washington's new pantomime looks set for a long run ● Canada banks brace for merger ruling ● Zedillo budget resolve fails to move Mexico's opposition
http://www.FT.com/Americas

MEDICAL RESEARCH BREAKTHROUGH OPENS NEW CHAPTER IN UNDERSTANDING OF HUMAN HEALTH

Worms help solve genetic mysteries

By Clive Cookson, Science Editor

Scientists have for the first time deciphered the entire genetic blueprint of an animal. A UK-US collaboration has worked out the sequence of all 97m chemical "letters" in the genetic code of a tiny nematode worm.

George Radda, chief executive of the UK Medical Research Council, said last night: "The first genomic sequence of a complex organism – an animal with which the human body can be compared – promises to open a new chapter in the understanding of human health and disease... Today will be remembered as a major scientific milestone."

Over the past three years scientists have spelled out the genetic instructions for several single-cell organisms: bacteria and yeast.

But the multicellular worm *Caenorhabditis elegans*, sequenced at the Sanger Centre in Cambridge and Washington University in St Louis, has far more in common with people. It has muscles, nerves and skin, digests food and reproduces sexually.

"The more work we do, the more we realise that the worm's internal processes are a microcosm of humanity," said John Sulston, director of the Sanger Centre. *C elegans* has about 20,000 genes, of which 40 per cent seem to be closely related to human genes.

The MRC and US National Institutes of Health jointly provided £30m ($50m) funding for the worm project over 15 years. Its successful completion is a prelude to the last stage of the Human Genome Project, a $3bn international endeavour intended to decode the 3bn letters of human genetic code by 2003.

C elegans has long been a favourite "model organism" for biologists. "It is very easy to grow and work on," said Jonathan Hodgkin of the MRC Laboratory of Molecular Biology, Cambridge – one of 1,500 scientists worldwide who make a living by studying the millimetre-long worm.

It lives naturally in the soil but thrives in laboratory Petri dishes. Because it is transparent, biologists can see what is going on under its skin. "Every one of the 959 cells in the adult worm has been identified," Dr Hodgkin said.

By comparing the sequence of worm and human genes, scientists find the ones that are present in both species. They then use the worm to examine their function and, they hope, draw conclusions about the genetic causes of human disease.

Although such studies are still in their infancy, some tantalising clues have emerged already. For example two biochemical pathways for the ageing process in *C elegans* could help to explain the mysteries of human ageing, Dr Hodgkin said.

Another promising line of inquiry concerns the way cells die. More than 15 genes are involved in the process of cell death in the worm and their human equivalents could be important for understanding cancer.

Everyone concerned with the worm project said its hallmark was the complete openness with which the two teams shared information not only with each other but with any scientist who wanted it.

In a veiled dig at private genomics companies, Francis Collins, director of the US National Human Genome Research Institute, said: "The commitment of the two groups to make their sequence data available to the research community right from the start is admirable. It is exactly how we plan to operate our sequencing programme on the human genome."

The multicellular worm Caenorhabditis elegans: its internal processes are a 'microcosm of humanity'

MILITARY SERVICES SOUTH AFRICAN GROUP CLAIMS AFRICA NO LONGER NEEDS ITS OPERATIONS

Mercenary company closes its doors

By Victor Mallet in Johannesburg

Executive Outcomes, the South African mercenary company whose operations have included providing military support for governments in Angola and Sierra Leone against their rebel opponents, announced yesterday that it would close on January 1 next year, nearly a decade after it was founded.

"What we did we did very well and we are proud of it," said Nico Palm, the EO director who made the announcement. "There is a time to come and a time to go," he said, likening the company to a boxer who "makes a decision at the right time" to quit.

There was little surprise in South Africa at the demise of EO, which has marketed itself from an office in Pretoria as a legitimate organisation providing "professional military advisory services". Mr Palm said the company closed its UK office last year.

In South Africa, mercenary groups now face the threat of having their assets confiscated under the new Military and Foreign Assistance Act. EO, however, made submissions when the legislation was being drafted and says it is the only security company to have a permit under the law.

But EO's explanation for its decision to close – it says the progress made by African governments in their efforts to maintain peace and stability preclude the need for EO's involvement – is regarded as utterly implausible. Rarely, if ever, have so many African countries been engaged in foreign military expeditions, domestic wars or civil conflict.

In the Democratic Republic of Congo alone, there are soldiers from Rwanda, Uganda, Zimbabwe, Angola, Namibia and Chad supporting one side or the other in the civil war. Such wars create abundant opportunities for mercenary work for the former soldiers from South Africa and elsewhere who work on contract for EO and similar companies.

Hence the widespread suspicion that those who worked for EO will simply move on to work for other security companies. Mr Palm, who says he is a former South African military man and EO's sole shareholder, yesterday denied reports that the company has long been connected to a web of other mercenary groups. "It was never so," he said. "It was totally untrue".

Among past successes listed on EO's website are operations to counter white-collar crime "for a major product supplier"; to train South African special forces in counter-espionage; to secure and hold oil installations (this was in Angola); to release hostages; to retrain an African army; and to prevent a coup d'etat.

Observer, Page 13

Donors plug Uganda's finance gap

By Mark Turner in Kampala

Donors have pledged $2.2bn to Uganda for the next three years, in spite of serious concerns over high levels of corruption and the country's military involvement in the Democratic Republic of the Congo.

The money, together with disbursements from existing commitments, will plug a financing gap of about $1bn from 1998 to 2001, and fully met the Uganda government's demands.

But the decision masked a split between bilateral donors and the International Monetary Fund over the analysis of Uganda's policy environment.

Over four days of meetings in Kampala, the Ugandan capital, bilateral donors issued a series of highly critical statements about defence spending, following Uganda's support for the rebellion against the government of President Laurent Kabila. They are also critical of corruption, poor tax administration and insufficient banking supervision.

The criticisms were particularly pertinent following the resignation of Salim Saleh, President Yoweri Museveni's brother and special adviser, over his involvement in the purchase of Uganda Commercial Bank, and the release of a parliamentary report documenting rampant corruption in the country's privatisation process.

In a final statement, donors said they were "increasingly concerned that in many sectors and at different levels of society, corruption remains a serious problem".

They also "expressed particular concern about the level of defence expenditures," which they feared "could undermine Uganda's record of macroeconomic stability or divert government resources from priority expenditures in education, health, roads and agricultural extension".

But in a separate statement, the IMF said the government continued to demonstrate "an unswerving commitment to economic reform and macro-economic stability" which "needs and deserves the full and continued support of the international financial community".

The Fund also said that Uganda had provided assurances that any over-runs in defence spending would be "fully offset by cuts in other non-wage recurrent expenditures, excluding priority programme areas". Donors fear Ugandan expenditure on the war may exceed the estimated ceiling for 1998-99 of USh168bn ($119m).

Privately, one northern European donor expressed extreme disappointment at the IMF's position. "It is as though we are describing two different countries," said the diplomat. "The international financial institutions should really listen more to their members."

Bernard Ryelandt, the European Commission's head of delegation, insisted that future disbursements would be "fully conditional on the fact that we are satisfied that the increase in military expenditure does not affect spending on priority areas," and on Uganda living up to promises on tackling corruption.

The split reflects a growing debate between donors and within donor governments over their stance on Uganda, whose consistently high growth and poverty reduction over the past 10 years has earned it the reputation of star performer in the developing world.

The country continues to post a good macro-economic performance with sound polices, and poverty remains high: a combination of which makes Uganda a highly efficient destination for aid money according to influential economists Paul Collier and David Dollar.

Baghdad accused over arms inspection

By Michael Littlejohns at the United Nations in New York

The head of the United Nations disarmament commission for Iraq last night accused Baghdad of repeatedly obstructing weapons inspection teams – contrary to its agreement, under threat of imminent US and British military action, to resume full co-operation.

But Richard Butler's report to the Security Council was more factual than judgmental; he has decided to delay at least until next week a full assessment of the effects of Iraqi tactics.

Leading up to a stand-off on Wednesday when inspectors were barred from the headquarters of the ruling Baath party, he cited other obstructions by Iraq, which promised on November 14 that the commission could resume arms inspections that were interrupted on August 5.

But last Saturday, the first day for a new inspections series, the National Monitoring Directorate, invoking security concerns, prevented the photographing of bombs and tried to prevent video taping, Mr Butler said.

Questions addressed to site personnel were interrupted and an attempt made to control their responses. The director of the facility stated that no Iraqis must answer questions about the storing of UN-tagged material moved after the October 31 decision to halt all co-operation with the commission.

"Conflicting accounts were given regarding: presence of personnel; the dates items were moved in and out of the facility; who ordered the movement; which items were involved and whether the items stayed within the perimeter of the facility," Mr Butler said, tending to confirm fears that Iraq could have spirited away evidence during the inspections hiatus.

RAIL TRANSPORT PROPOSAL SEEN AS INTERIM SOLUTION

Eurostar may link Heathrow and Paris

By George Parker, Political Correspondent

Eurostar could soon be running direct train services from London's Heathrow airport to continental Europe under proposals submitted to John Prescott, deputy prime minister.

Eurostar has told Mr Prescott it wants to drop its original plan to run direct regional services from the north of England and Scotland through the Channel tunnel to Paris and Brussels.

Seven regional trains worth £180m ($298m) have been lying unused in sidings ever since the Eurostar consortium decided regional services could only be run at a loss.

Now, Eurostar wants to switch the trains to new services from Watford, north of London, and possibly Heathrow, to complement its routes from London's Waterloo station.

The proposal will cause some political embarrassment for Mr Prescott, who has been keen to ensure travellers from the regions reaped the full benefits of cross-channel train services.

However, he is sceptical about committing public subsidies to regional services with limited appeal.

The government has already agreed to spend up to £3.3bn in direct public subsidies to ensure completion of the 68-mile Channel tunnel rail link.

The Eurostar consortium, whose shareholders include National Express, British Airways and the French and Belgian state railways, concluded that direct Eurostar services from Scotland and the north would lose about £9m a year.

Its report, distributed by Mr Prescott to Members of Parliament this week, says the services will not be viable until 2002, when the high-speed link to the tunnel is due to be completed.

It concludes an interim solution would be direct trains from Watford to Paris, so travellers from the north would not need to cross London to catch Eurostar trains.

Virgin Trains claims it could run profitable regional services, although these would depend on it acquiring the seven trains at minimal cost.

● Rail safety experts yesterday unveiled proposals for modifying 2,000 of the oldest carriages on the British rail network to make them safer in the event of a crash, **Charles Batchelor writes.**

The Health and Safety Executive, with overall responsibility for rail safety, said tests completed earlier this week showed the elderly Mark 1 slam-door carriages used on many commuter routes into London could be modified cheaply and quickly.

The announcement came close to the 10th anniversary this Saturday of a train crash in Clapham, south London, which killed 35 people. The three trains involved were all made up of Mark 1 carriages.

It accompanied publication of safety statistics showing a decline in crashes on the rail network generally but an increase in the number of deaths.

'Boss' wins action over early recordings

US rock star Bruce Springsteen (right) leaves the High Court in London yesterday after winning his action against a British company he accused of pirating his music.

The judge, Mr Justice Ferris, granted the singer, known as "The Boss", an injunction stopping Masquerade Music, a London-based company, from releasing an album of songs written and recorded by the singer at the start of his career 26 years ago.

The judge awarded Mr Springsteen his £500,000 ($830,000) court costs against Masquerade, whose lawyers said they would take the case to the appeal court. The judge also allowed Mr Springsteen to seek damages of £2m against Robert Tringham, the man who ran the now-defunct Flute International Ltd, who was also found to have infringed copyright of some of the songs.

The star said after the hearing: "I am very happy. I was not here for the money but for my music." He added: "The music that is released is the way that you shape your career. It is a big part of what you say and the way you say it."

Flute was not pursued in the action because it is in compulsory liquidation.

Press Association

American Express to move into retail investment

By James Mackintosh

American Express is to take advantage of the replacement of Peps (personal equity plans) with Isas (individual savings accounts), in April to enter the lower end of the retail investment market in the UK.

It is to take a similar approach in Germany, France and Italy, launching its new investment arm there to coincide with the start of the euro in January, it said yesterday.

And it is likely to start selling mortgages and personal loans within a year.

Competition for investors' money in the run-up to the launch of the tax-free Isa will be stiff. Direct mailings to American Express cardholders will worsen the situation for competitors already worried that investors are likely to be put off Isa by its complexity. Many fund managers also worry that the natural home for Isa investments will be the banks and building societies because of the tax-free cash element.

American Express is a late entrant to the mass investment market in Europe, but in the US its investment division contributes a third of profits. Its main US competitors are already active in Europe, with Fidelity, Merrill Lynch and Morgan Stanley Dean Witter all running investment operations and many of its stockbroking competitors – Charles Schwab, Green Line and several online brokers – either established in the UK or in the process of setting up.

American Express is best known in Europe for its charge cards and travellers cheques. The company's only involvement in European investment at present comes through its private banking operations and small operations in Germany and France.

The new fund will be based in Luxembourg.

DEFENCE MINISTRY TO CONSIDER PRIVATE-SECTOR CONTRACT FOR TANK TRANSPORTERS

Army could use civilian drivers

By Alexander Nicoll, Defence Correspondent

British Army tank transporters operating at the front line of combat could have civilians as drivers under a contract to be considered by ministers in the next few weeks.

The plan is one of the most radical in the Ministry of Defence's drive to procure more equipment and services under the private finance initiative – in which private sector companies own and operate equipment.

Companies would supply vehicles, maintenance and drivers as "sponsored reserves". When the transporters were not needed by the army, they and their drivers would be used for commercial transport.

MoD officials want to use the contract as a test of the limits of PFI, given concerns that operational effectiveness of the armed forces could be undermined.

Five private bidders that put in proposals in response to an MoD request a year ago will shortly learn whether they are to be invited to negotiate on specific contract terms.

They are Brown & Root with Oshkosh Truck Corporation; Lex Service; Alvis Unipower with Ryder and PAH Vehicle Management; Serco with Man Truck & Bus; and Mercedes Benz UK.

The contract is due to be awarded in 2000 with service to begin from 2002 – a short lead time compared with most MoD procurement programmes, allowing it to be used as a testing ground.

The transporters will replace the army's ageing fleet of 120 Scammell Commanders, which are reaching the end of their life.

Officials said the reason for using PFI was value for money. "If we bought trucks and used them ourselves solely, they would not be in use for much of their lives," said one official. "Under PFI, if we're not using them, someone else can."

Brown & Root said it had tested the market to see whether it could recruit drivers who would be suitable as reservists.

Similar contracts under consideration include roll-on roll-off ships, which would transport men and equipment to war zones but would be available for commercial use; and replacements for the Royal Air Force's ageing fleet of air-to-air refuelling tanker aircraft.

The MoD has awarded 21 PFI contracts worth about £3bn but these have been mostly in service areas such as training, and well away from the front line.

E-commerce study aims to stop UK falling behind

By Nicholas Timmins, Public Policy Editor

A drive to ensure the UK takes advantage of electronic commerce is to be one of the first studies by the new performance and innovation unit in the Cabinet Office.

Tony Blair, the prime minister, yesterday announced the unit's first five projects aimed at helping the country benefit "from the single fastest growing market place in the world economy".

The study has been prompted by fears that the UK is falling behind the US and possibly other countries in creating the right environment *for e-commerce*. The unit will look at the legal, fiscal and technical issues involved, cutting across departmental boundaries.

It will bring in private sector expertise to boost the civil service team. It will work with the trade and industry department on competitiveness and trade issues, both the Treasury and Customs and Excise on tax, and the Home Office on legal matters and law enforcement. The security services are also likely to be involved.

Each of the projects the unit undertakes will have a sponsoring minister outside the immediate departments. The unit will report directly to the prime minister through Sir Richard Wilson, the cabinet secretary.

Other areas on which reports are planned by next summer involve central government's role at regional and local level following the creation of regional development agencies and the health, education and employment action zones.

The unit's aim is to "address strategic, cross-cutting issues and promote innovation in the development of policy," Mr Blair said.

LEGAL NOTICES

NO. 006704 OF 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
MR REGISTRAR BUCKLEY

IN THE MATTER OF
MUTUAL OF OMAHA U.K. LIMITED
AND
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 4th December 1998 made in the above matter the Court has directed a meeting to be convened of the Scheme Creditors [illegible]

Dated this 10th day of December 1998

LINKLATERS & PAINES (GTD/JCPO)
One Silk Street, London, EC2Y 8HQ
Solicitors for the Company

No. 006888 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
HOMESHARE (UK) I LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 1st December 1998 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by £575,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of January 1999.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED the 11th day of December 1998.

NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Tel: 0171 493 9933
Ref: BG/RZV/G176/82
Solicitors to the Petitioner

No. 006890 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
HOMESHARE (UK) III LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 1st December 1998 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by £392,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of January 1999.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED the 11th day of December 1998.

NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Tel: 0171 493 9933
Ref: BG/RZV/G176/82
Solicitors to the Petitioner

LEGAL NOTICES

No. 006892 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
HOMESHARE (UK) IV LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 1st December 1998 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by £490,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of January 1999.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED the 11th day of December 1998.

NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Tel: 0171 493 9933
Ref: BG/RZV/G176/82
Solicitors to the Petitioner

No. 006891 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
HOMESHARE (UK) II LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 1st December 1998 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by £230,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of January 1999.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED the 11th day of December 1998.

NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Tel: 0171 493 9933
Ref: BG/RZV/G176/82
Solicitors to the Petitioner

No. 006889 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
HOMESHARE (UK) V LIMITED
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 1st December 1998 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by £180,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the 20th day of January 1999.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of the share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED the 11th day of December 1998.

NABARRO NATHANSON
50 Stratton Street
London W1X 6NX
Tel: 0171 493 9933
Ref: BG/RZV/G176/82
Solicitors to the Petitioner

MONETARY POLICY TEAM BUSINESS LEADERS AND CITY ECONOMISTS APPLAUD THIRD REDUCTION IN AS MANY MONTHS

Central bank cuts interest rate to 6.25%

By Richard Adams, Economics Staff

The Bank of England, the UK central bank, yesterday cut official interest rates by half a percentage point to 6.25 per cent, arguing that the outlook for the economy was worse than it thought last month.

The Bank's monetary policy committee cited weaker economic conditions at home and abroad as triggering the cut, which came a week after the concerted interest rate cut by the 11-member states of European economic and monetary union.

"The monetary policy committee judged that the downside risks to both activity and inflation have increased, and therefore reduced interest rates by 0.5 percentage points to keep prospective inflation on track to meet the 2.5 per cent target," the committee said.

Business leaders and City economists applauded the decision to reduce the cost of borrowing for the third month in a row. Official short-term rates are now back at their lowest level since the Bank was handed control of setting monetary policy in May last year.

Kate Barker, chief economist of the Confederation of British Industry, the principal employers' organisation, said the cut was welcome for industry and consumer confidence. "It proves that the MPC is prepared to act against the dangers of deflation," Ms Barker said.

Banks and building societies responded by cutting base lending rates and the cost of mortgages. Nationwide building society [home loans and savings institution] and Halifax bank, two of the UK's largest mortgage lenders, announced immediate reductions in their standard variable rate mortgages.

Stephen Byers, Treasury chief secretary, told parliament the rate cut "was only made possible because this government is steering a course of economic stability in an uncertain and unstable world".

But Francis Maude, the opposition Conservative party shadow chancellor, accused the government of "astonishing complacency" in the face of mounting job losses, including 1,000 at Royal Doulton's operations at Stoke-on-Trent, in the English Midlands, announced yesterday.

On the equity and money markets in London, traders had largely expected the Bank's decision. Sterling was little changed against the D-Mark during trading in London, closing at DM2.762, after strengthening slightly on news of the cut.

Interest rate future contracts traded in London also firmed after the cut, as expectations were raised of a further reduction when the monetary policy committee next meets on January 7.

Recent falls in international commodity prices have lowered the costs of industry's raw materials, raising the possibility of underlying inflation falling well below the government's target of 2.5 per cent.

Editorial comment, Page 13
Lex, Page 14

Entrepreneurs to benefit from 'new strategy'

By Peter Marsh in London

High-tech entrepreneurs and businesses with innovative ideas will be the beneficiaries of a shake-up in the £1bn ($1.66bn) trade and industry department budget, Peter Mandelson, the department's chief minister, said yesterday.

The changes appear in a paper stating UK government policy on competitiveness to be published next Wednesday. Mr Mandelson described the paper as a new "industrial strategy" to encourage companies to upgrade their businesses using "knowledge-based" ideas.

Initiatives include ideas to boost the use of electronic commerce through the internet, and ways to encourage more companies to take up scientific breakthroughs at universities.

Mr Mandelson said the white paper would be a "proselytising statement" setting out ways to "modernise the micro-economy". The paper would be relevant to virtually all companies, from small start-ups to giants such as Marks and Spencer or ICI.

The redirection of the DTI budget may mean less money going towards large regional assistance projects to help big businesses relocate – an area on which the department now spends £100m-£200m a year.

Mr Mandelson is using the paper to make his mark in an important area of government activity. In the past, he has been regarded mainly as a backroom political "fixer". He took up his DTI job in the summer after a government reshuffle.

His bid to move into the centre of economic policy-making has led to strains with the Treasury, which views many of the ideas in the policy paper as its own preserve.

Trade department officials and the Treasury were conducting joint studies on how the tax system might need to be changed to aid entrepreneurship.

The trade and industry secretary yesterday discussed the UK's position on competitiveness with Michael Porter, the Harvard Business School professor who is an international authority on the subject.

Prescriptions for a healthy UK economy

***Peter Marsh** talks to a Harvard business guru who is seeking competitive converts*

Michael Porter, a professor at Harvard Business School and a leading authority on measuring economic performance, uses an unscholarly term to describe Britain's poor showing internationally as a generator of wealth.

"It stinks," is how he describes the UK's lowly ranking in most global league tables of areas such as income per person or industrial competitiveness.

Prof Porter yesterday came out with his own analysis of Britain's shortcomings, which puts the country 16th out of 18 industrial nations in terms of its ability to derive commercial benefits from science and technology.

The UK's ranking in an "innovation index", based on such factors as patents and research and development spending, will by 2006 slip further, to 18th, Prof Porter believes – unless the country takes action.

On this score Prof Porter, author of *The Competitive Advantage of Nations*, has come up with a list of prescriptions. He delivered them last night at a lecture in London organised by Merck, the US drugs company, and the Confederation of British Industry.

He also promoted his ideas at a dinner attended by Treasury officials, and at a meeting with Peter Mandelson, the trade and industry secretary, whose white paper on competitiveness is to be published next week.

Prof Porter says New Labour is making a reasonable start in trying to boost UK companies' competitiveness through focusing on ways to boost productivity and similar "micro" measures. But he reckons the government needs to go further in reducing barriers to risk taking. "In the UK, people say we want more entrepreneurs, but we don't want them to become too rich," he says.

The Harvard business guru would like Britain to organise "high-powered incentives" to aid entrepreneurs, starting with a large cut in capital gains tax, by which the Treasury claws back wealth generated by investments. Prof Porter would like the tax – which for high-earners takes effect at 40 per cent – cut to zero in some cases.

Another prescription is to defray against tax any increases in R&D spending made by companies. The incremental nature of this policy would, Prof Porter believes, stop taxpayers subsidising spending that would have taken place anyway.

Michael Porter: analysis of Britain's shortcomings Malcolm Watson

He believes both measures would trigger other worthwhile changes, such as increased funds for venture capital. They could also lead to more businesses capitalising on scientific breakthroughs in academic institutions – an area in which Britain has a poor record.

This is shown by data linking international patents (a measure of commercially relevant technological ideas) with citations of scientists' work in the technical literature. Britain's figure for 1996, of 87 patents per 1,000 citations, puts it in 12th position out of 17 countries, underlining its weakness in converting scientific endeavours into business success.

Prof Porter would like Mr Mandelson to take up his ideas about helping "clusters" of related businesses learn new ideas or transfer their own winning formulas to other groups of businesses.

NEWS DIGEST

NORTHERN IRELAND

First minister uses Nobel speech for arms demand

David Trimble, the Northern Ireland first minister, yesterday surprised his nationalist rivals when he used his Nobel Peace prize acceptance speech to highlight his own party's difficulties over the Irish Republican Army's refusal to decommission its weapons.

While John Hume, the Social Democratic and Labour party leader and co-prize winner, repeated his grand vision of "an Ireland – North and South – playing its rightful role in Europe", Mr Trimble used the occasion to repeat his demand for a start to IRA disarmament before Sinn Fein, the IRA's political wing, could take seats in government.

On a historic day in the city hall in Oslo, Mr Trimble warned "any further delay will reinforce dark doubts about whether Sinn Fein are drinking from the clear stream of democracy or is still drinking from the dark stream of fascism. It cannot forever face both ways." He was not prescribing "precise dates or quantities", but wanted "a credible beginning" to the decommissioning of IRA arms.

In an implicit criticism of the SDLP he said: "Is it too much to ask that the reformist party of nationalism, the SDLP, support me in this?"

The peace award is in recognition of Mr Trimble's and Mr Hume's contribution to the Good Friday peace agreement. But the accolade comes amid continuing wrangling over the shape of the Northern Ireland executive and the cross-border bodies linking the province and the Irish Republic. **John Murray Brown, Dublin**

AIRLINE COMPETITION

Call for greater EU regulation

A committee of the House of Lords, the unelected upper chamber of parliament, has called for the European Commission to be given greater powers to regulate airline competition, saying it would do more to protect consumers than national governments.

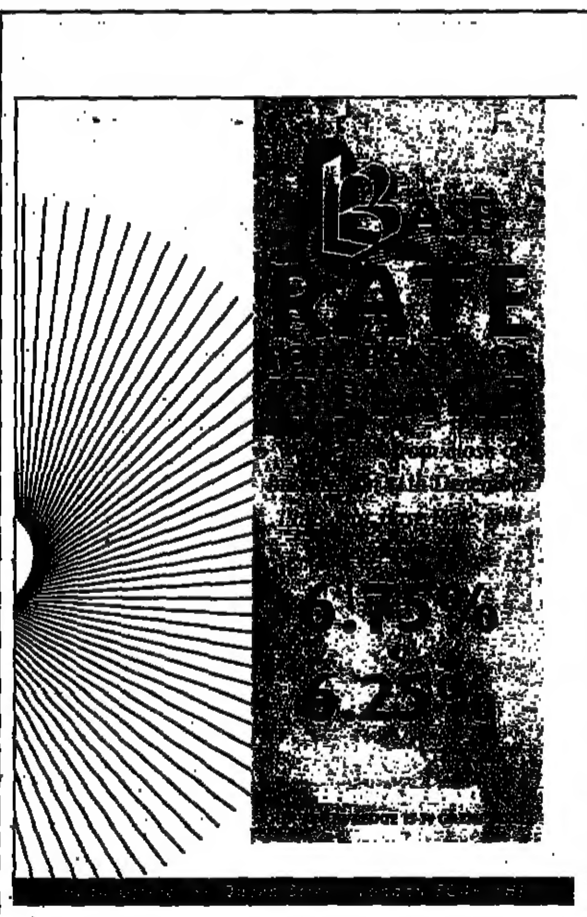
The select committee on the European communities also said the system of allocating airport take-off and landing slots was anti-competitive and should be reformed. The committee said "grandfather rights", under which airlines are granted slots for an indefinite period, discriminated against new airline entrants. While the Commission can investigate services between the European Union and third countries, enforcement of competition regulations lies with national governments. **Michael Skapinker, London**

TOBACCO INDUSTRY

Health plan greeted cautiously

Government plans to cut the number of smokers by 1.5m by 2010 were yesterday given a cautious welcome by campaigners and the medical profession, which had hoped for tougher action and more regulation.

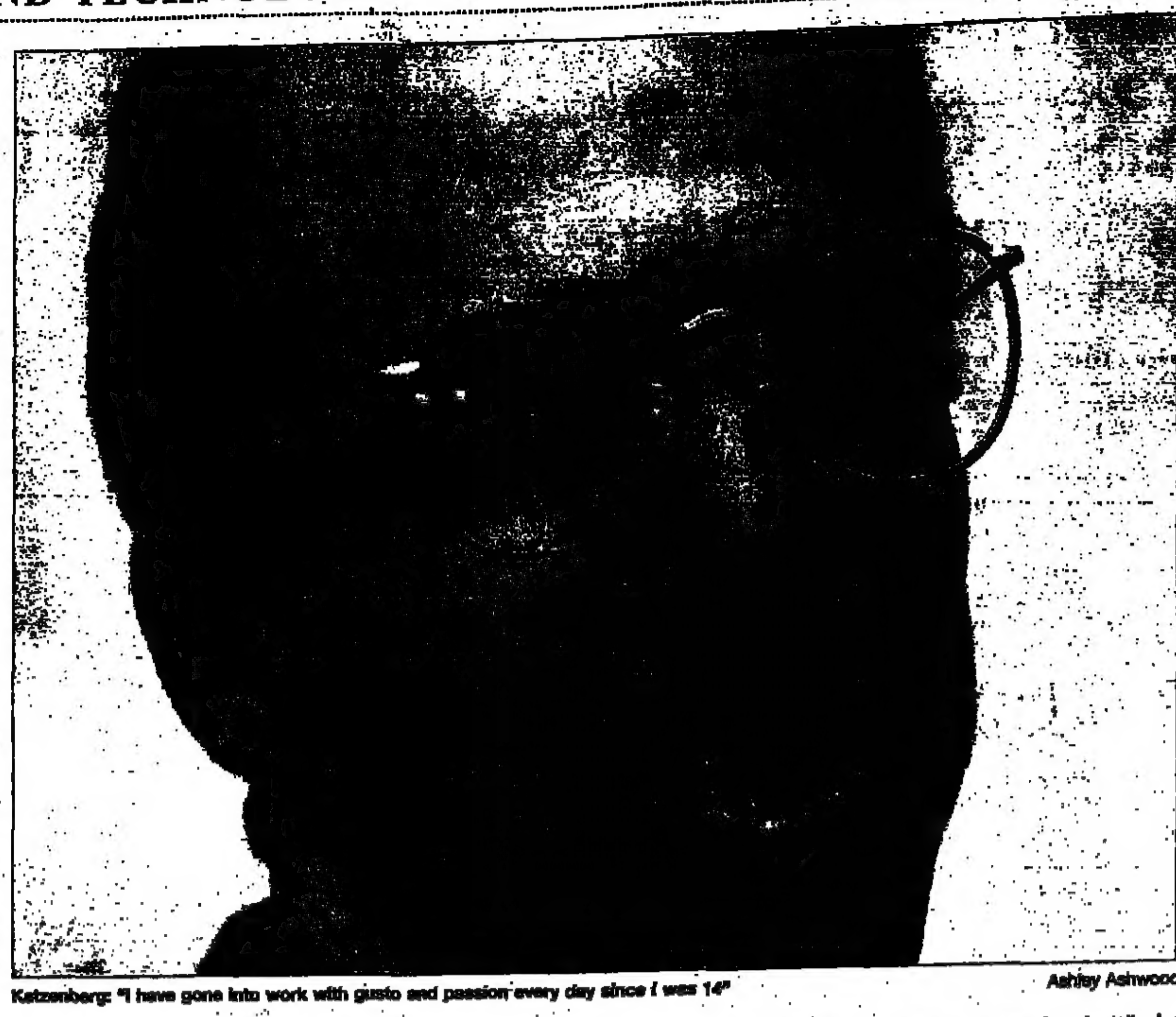
The tobacco industry, braced for the worst, welcomed the measures to cut under-age smoking. British American Tobacco complained only that the government had shirked from raising the smoking age from 16 to 18. Most tobacco sponsorship of sport will end by 2003 and Formula One motor racing will be allowed to retain cigarette money "if and only if tobacco sponsorship funding and advertising are already being reduced". **Simon Buckby, London**



INTERVIEW JEFFREY KATZENBERG

When cartoons are no joking matter

It's make-or-break time for the DreamWorks co-founder, and **Lucy Kellaway** encounters him in all his startling intensity


Katzenberg: "I have gone into work with gusto and passion every day since I was 14" Ashley Ashwood

It is four in the afternoon at the Dorchester Hotel in London. For Jeffrey Katzenberg, one of the founders of DreamWorks, it has been just an ordinary day. That is to say, from early morning he has sat in his suite sipping mineral water and giving one interview after another.

For the past two months he has been in fancy hotels all over the world telling journalists about *Prince of Egypt*, DreamWorks' first big animated movie which opens worldwide next week.

"I'm having a ball!" insists Mr Katzenberg as he shakes my hand. "I love all this! What we are trying to do is so important!"

But the skinny little figure in black and grey shows none of the usual signs of having a ball. Instead, he is pulsating with nervous energy, displaying a startling, almost frightening, intensity.

This is make-or-break time for Mr Katzenberg. When he left Disney four years ago and started DreamWorks with Steven Spielberg and David Geffen his mission was to change the way cartoons were made.

Prince of Egypt, which has taken four years to produce and cost a rumoured $100m (£60m), will prove whether he can do that.

Based on the story of Exodus in the Bible, the cartoon is radical, in so far as there are no singing animals and there will be will be no Moses pillow covers or Red Sea lunch boxes. Instead, it is a film aimed at what passes for a grown-up audience in Hollywood.

Is he nervous? I ask.

"Plenty. We are two weeks away from the launch and no one can tell you how it is going to do. I don't know what you thought you were going to see. But I bet it was not what you expected."

I tell him that I dislike cartoons but that I did like this one, up to a point.

"I really, genuinely hope you start off your article by saying: I hate these movies, but here's a newsflash – this is something new and exciting!"

He proceeds to tell me precisely what I should say, with all the confidence of one used to having his instructions followed.

I tell him that after seeing the film I checked the Bible to discover that the main story of the film is nowhere in Exodus.

"You went home and read the Bible?" he exclaims. "We did that to you? Isn't that incredible? My mom would be proud of me!"

The fact that I had turned to the Bible in a spirit of suspicion did not seem to register. It is as if Mr Katzenberg is willing the movie to work and that everything he hears he twists until it adds to the hype.

I ask whether he might not be taking what is only a cartoon a bit too seriously. He looks irritated. "I don't see it as a cartoon film. This story is the foundation of faith to two-thirds of the people on this planet."

What about his own religion?

"I don't want to answer that. I'm proud of my heritage and my faith. How important faith is in my life is not the issue in the movie.

'I've learnt that a really competitive situation does not bring out the best in people'

"I believe in miracles," he goes on, getting back to the subject in hand. "This movie has miracles at its centre. There may be many people who do not believe in miracles, but I have not yet found one person who does not want to believe in them."

You have now, I say. But this does not fit and he will not permit it.

"Let me tell you something," he says emphatically. "There will be a moment in your life when you *will* want to believe in miracles. I'm telling you. Trust me." This line of conversation seemed to be going nowhere so I asked about DreamWorks.

He tells me they are having a great year, miraculous, almost. I ask if he is more committed to DreamWorks than he was to Disney as a result of putting $33m into the company and mortgaging his three substantial homes.

"No! I've gone into work with gusto and passion every day since I was 14 years' old. I loved every day at Disney. I loved working with Michael Eisner."

That is a little surprising, given that his departure from Disney (prompted by the fact that he had been passed over for the job of president) caused an ugly and public split with Mr Eisner, and Mr Katzenberg is now suing Disney for $250m.

So are the bridges mended, then?

"Mine are," he snaps back. "I can't answer for his," and he gives a little laugh.

Is he going to get the money? He sighs.

"They are still fighting. But I'll get it. You know the healthy thing about all this is that I have put the matter in other people's hands and I am not wasting energy and effort on it. That's about the past. For me, this is about the principle, not about the money. I live a blessed life style. I never see a nickel. It's about truth, justice and the American way."

Strewth, I thought.

"I had a contract. And I want it honoured. I won't let go. I won't let go if it takes me 40 years. I will not let go!"

So I ask about the claim by Pixar and Disney that Mr Katzenberg stole the idea for the DreamWorks film *Antz* from the Pixar film on the same theme, *A Bug's Life*.

He takes a two-second pause, which for him is a long one.

"I've learnt that a really competitive situation does not always bring out the best in people," he says, suddenly very much the grand old man. "They get very nervous, anxious, paranoid. It causes people not to act completely rationally."

Does competition never have that effect on him?

"No! I don't allow myself to get caught up in that. You've read a lot about me," he states. "And one thing you would find consistently about me..." – I try in vain to guess where this sentence is going – "...is that I have a tremendous sense of integrity in the way I conduct myself."

But what about the plagiarism accusation?

"That's just my point. It's like asking me to deny that I beat my wife. I won't do it. It's particularly disappointing because the guys who are slinging the mud, I gave them the opportunity to get into the business. I supported them financially and creatively."

So, I said, you are bitter.

"No! I am too strong to be bitter. Bitter is not a good 'erb to be carrying inside yourself."

Did he mean herb? As in cooking?

I say that he seems to have the perfect personality for this rough, tough movie business.

"Yah!" he agrees, and holds out a skinny, hairy wrist. "Touch that," he orders. Gingerly, I do so. It is surprisingly warm. "Rhino," he says. "It's rhino skin. Do you know how hard it is to penetrate rhino skin?

"They've been slinging stuff at me for the last eight weeks. But I don't care. It's about my work moving forward." Something then tells him that my allotted time is up.

"Goodbye," he says without preamble. I make a pleasantry, but already he has dismissed me. I am in the past, and the future is waiting at the door.

INFORMATION TECHNOLOGY HELPDESKS

Software solutions to hard questions

Companies realise that a well-organised system is the one of the keys to retaining customers, says **George Cole**

Why are so many telephone helplines anything but helpful? All too often you have to negotiate a confusing interactive phone system or be subjected to electronic music before speaking to someone. Then, after explaining your problem to the helpdesk operator, you are passed to the wrong person.

Such situations may soon become rarer thanks to the growing use of helpdesk software. Internal helpdesks have been used by companies for years, solving staff information technology (IT) problems, but now attention is turning to the so-called front office, which deals directly with customers, and the external helpdesk.

"More and more companies are using external helpdesks. They used to be the province of high-tech sectors like the computer industry, but now we're seeing them being used by utilities companies, financial organisations and telecommunications companies," says Cassandra Millhouse, a consultant at Ovum, an IT and telecommunications analyst group.

The Aberdeen Group, a research organisation, says the worldwide helpdesk software market is growing by an average of 38 per cent a year, and is expected to be worth about $4.78bn in 1999.

"Companies used to compete on cost, but now they compete on knowledge – and that includes knowing your customer," says Robert Wallbridge, vice-president of Vantive (UK), a front office software provider. He adds: "It costs up to 12 times as much to acquire a new customer as it does to retain one. A big company can lose 10-12 per cent of its customer base each year."

But how can helpdesk software help a company deal with its customers? Some programs can be linked to the Calling Line Identification (CLI) system used on many digital phone lines. This allows the number of the caller to be displayed on a PC screen before the call is taken. The number can be matched with customer information held on the company's database.

This information could include the callers' names, their companies and the record of say, the last five calls each one has made to the company.

The software may also allow the customer's information screen to be passed on to another person in the group, along with details of the current problem.

Helpdesk software may be linked to the company's field service department, allowing rapid dispatch of a service engineer. "Integration is the key to the success of helpdesk software. It needs to be connected to the relevant company databases," says Rick Powles, business unit director of the database software company Oracle.

But Noel Bruton, a helpdesk consultant, warns that helpdesk software is not a panacea: "Too many companies think that if they buy helpdesk software it will solve all their problems. But you've got to have organised processes in place, otherwise all you get is computerised chaos."

The internet is set to play an important role in helpdesk management. "Half the people shopping on the internet never complete the transaction. They want to speak to someone at the call centre before putting their credit card through," says Carl Sommerfeld, product manager at Oracle. The answer to this may be "help yourself help", with customers given access to a web site for the most frequently asked questions and answers.

David McKay, vice-president of marketing at Baan, the Dutch business software company, says the company has licensed a technology that tracks a person as they move through a company web site and then passes on this information to a helpdesk agent: "If the person calls the company, the agent could say 'I see you've been looking at our shirts, how about we look at this range together?' and both customer and agent could view the same web pages together". Baan plans to incorporate the technology in future versions of its front office software.

Scottish company Altor is working with Paisley University on a project funded by the UK's Department of Trade and Industry, which could make helpdesks even more efficient. The project involves placing bar-code tags on pieces of equipment (such as a computer monitor). The bar codes would contain information, such as the device, model number, manufacturer and location.

A service engineer collects the data with a scanner and puts it into a laptop PC. It is then sent to the helpdesk database via the internet: "If the customer calls about a fault, the helpdesk can instantly call up all the relevant information on their screen," says Erick MacKay, Altor's managing director.

Altor plans to develop an automated helpdesk call system. A device fitted on a company's network would detect problems with equipment on the network, and send this information to a helpdesk. This certainly beats hanging on the line and listening to music.

Pride of place at the Prado

Susan Moore admires the artistic taste of Philip II, whose 400th anniversary is being celebrated in Madrid

Philip II of Spain was the consummate Renaissance prince. A host of shows, commemorating the 400th anniversary of his death, pay tribute to his interests in science, art, architecture, horticulture, in rare books and manuscripts, and the wonders of the natural world. He ranks among the greatest patrons and connoisseurs of 16th century Europe. His picture collection alone comprised over 1,500 items, including some 30 Titians, and laid the foundation for one of the great art galleries.

That makes the Prado the most obvious place to stage an international art exhibition devoted to the so-called Prudent King. The problem for the Spanish gallery-going public is that most of the exhibits are familiar from their permanent display in Madrid in one institution or another. Despite its many glories, and some spectacular loans, of paintings and sculpture, of Brussels tapestries, Augsburg armour and the treasures and curios of the Wunderkammer the show has failed to bring in the crowds.

It may be significant that this exhibition is not about art at all, but rather its role in a Renaissance court – an exercise only possible thanks to the exceptional amount of surviving documentation. Kingship may not be the most promising subject for an art exhibition, but the king in question probably had the best eye in Christendom.

His collection embraced the likes of the – literally – ravishing, erotically charged mythologies of Titian and Correggio – contrastingly cool and sultry Danaes receive their lovers in the form of showers of gold – plus astounding Netherlandish primitives and quantities of Hieronymous Bosch. Making the point is one of the first works of art we encounter, Rogier van der Weyden's greatest masterpiece, The Descent from the Cross, one of a number of early Netherlandish pictures inherited from his aunt, Mary of Hungary.

Philip developed a taste for this old art and continued to acquire the work of the Netherlandish Primitives, from glowing Memling triptychs to Patinir's enchanting "Rest on the Flight into Egypt" with its miracle of the cornfield and the tiny pair of gold feet on a stone orb. What he could not buy, he had copied. These were almost exclusively the focus of his own devotions.

The exception was the work of Titian. In the oratory of the Alcazar in Madrid, Philip prayed before the Venetian's "Ecce Homo"; for the chapel of his private bedroom he chose another powerful suffering Christ, carrying the Cross in blood-red robes.

Titian, too, was called upon to furnish Philip with appropriate portraits, and an impressive sequence of pictures reflects the power of the brush as royal image-maker. Antonis Mor's portrait is a study of princely magnificence, the royal personage sumptuously clad in bejewelled black velvet and golden silk, the Order of the Golden Fleece around his neck. Titian presents him in martial mode although, unlike his father the Emperor Charles V, he steered clear of any action. He had the good taste and the good fortune, given his slight build and jutting Hapsburg jaw, to have Titian transform him into an classical god, and have Leoni cast him as a classical hero.

The iconography of Leoni's lifesize bronze is obvious. In his Roman armour, Philip is presented as an heir to the emperors of antiquity at a time when his father was promoting his son's claim to succeed him as Holy Roman Emperor. One of the most impressive sights is the sculpture gallery of lifesize Hapsburgs. Its centrepiece is that tour-de-force of imperial propaganda, Leoni's larger-than-life bronze, "Charles V and Fury Restrained", the emperor as Augustus vanquishing fury to initiate peace. The suit of armour can be removed to reveal Charles V in full, heroic nudity.

Familial piety was a strong Hapsburg suit. One of the reasons for Philip building the Escorial, for instance, was to house the bodies of his entire family. Their commemoration here and in the family portrait gallery he created at the royal residence of El Pardo on the outskirts of Madrid can be seen as a physical manifestation of a dynastic right to rule a collection of principalities and kingdoms.

The show reveals Philip as obsessed with the presentation of his own image – and only rivalled in this respect by his English adversary, Elizabeth I. In the "Allegory of the Battle of Lepanto" of 1571, a victory for the Holy League neatly combines with a dynastic triumph, the birth of an heir. El Greco's portrait of the bespectacled *Inquisitor*, Cardinal Fernando Nino de Guevara, represents the more alarming face of Spanish Counter-Reformation zealousness. El Greco did not win the king's lasting favour, but it is a testament to Philip's gift for spotting a winner that he alone among the giants of 16th century art slipped through the net.

Philip II: A Renaissance Prince, sponsored by the Fundacion Caja de Madrid, continues at the Museo Nacional del Prado, Madrid, until January 10, 1999.

The more alarming face of Spanish Counter-Reformation zealousness under Philip: 'Portrait of the Inquisitor' by El Greco

Lessons from life and death

THEATRE

SARAH HEMMING

Shadows
The Pit, Barbican, London EC2

What a bright idea it was of John Crowley to put these three one-act plays together for the RSC. Seen on their own, these short Irish dramas by Synge and Yeats might look a little curious to our eyes now – however venerated; presented as a trilogy, they throw interesting shadows across one another. The evening is ordered so that the comic piece is in the middle, breaking up the intensity of the plays either side, but it gathers in depth as it goes.

The linking theme of the plays is death: the way the dead haunt the living and the living deal with the dead. To our culture at the other end of the 20th century, this in itself is fascinating. *Riders to the Sea*, the first of the three, in particular, deals with a terrible tragedy – a woman's loss of two sons to the cruel sea – but more significantly, with her refusal to give her blessing to the last one as he departed. And while each play focuses on the dead, what you emerge with is a lesson about living. You certainly come away with a notion of the harshness of life and cruelty of choice faced by Irish peasants at the turn of the century.

In *Riders to the Sea*, we are in a household steeped in grief, where the mother has lost her husband and five sons to the sea and is about to lose her sixth. On Angela Davies's spartan set of bare boards, a table and a chest, the poverty and precariousness of the family's life is tangible. Stella McCusker gives a wonderful performance of a woman so worn away by loss that there is almost nothing left to give, and we never know whether her refusal to bless her son's departure is hard-heartedness, or a desperate signal to him not to leave. It is a sombre piece that never lifts for a moment, and the cast admirably sustains the dark atmosphere to the last, when a sort of peace finally descends upon the bereft mother.

The comic mood in the second piece, Synge's *The Shadow of the Glen*, comes as a great relief – although the message is serious enough. Here, the master of the house plays dead to discover the truth about his wife and, sure enough, she is soon entertaining a tramp and being proposed to by the fellow up the path. But her husband never realises how much truth he is revealing about himself – or how she might react. It is clear that Synge sympathises with this spirited, proud young woman married to a grumpy old man and condemned to intense loneliness, indeed almost a living death. Again it the harsh choices facing the living – particularly women – that strike us. It is very enjoyably acted and Mairead McKinley is excellent as the fiery Nora.

The last play is perhaps the most difficult to bring off, and the most unsatisfactory in this production. Yeats's *Purgatory* is symbolic, spare and odd. Here a man brings his son to the ruins of the house where he was born, a place he feels to be haunted by the spirit of his *remorseful mother*. Whether it is, or whether it is he who fills it with spirits, is hard to say, but with its empty stage, concentrated action and *distilled dialogue*, the play is almost Beckett-like. A degree of its power is conveyed here, but not all. Lalor Roddy, playing the Old Man, doesn't carry off that intensity that is so difficult to do in earnest. But altogether, this is a thoughtful evening, beautifully staged – and a word should go, too, to Martin Furey and Gary Lowe on the pipes, bodhran and, most appropriately, the bones.

Excellent as the fiery Nora: Mairead McKinley — Alastair Muir

Mozart and the buried treasure syndrome

Pierre Ruhe finds a collaborative opera, 'The Philosopher's Stone', unearthed in Boston

In September 1790, Emanuel Schikaneder and his theatre in suburban Vienna produced the opera *Der Stein der Weisen (The Philosopher's Stone)*, using his own libretto. Five composers – most of them obscure today – contributed to the score: Schikaneder, Johann Baptist Henneberg, Benedikt Schack, Franz Xaver Gerl, and Wolfgang Amadeus Mozart.

The approximately seven minutes of music attributed to Mozart, coming near the end of the opera's two and a half hours, seemed enough to compel a modern day premiere in Boston's Jordan *Hall of the New England* Conservatory.

We can be deeply suspicious of the buried treasure syndrome, where music long in the shadows comes to light once again. All too often it's immediately apparent why – whatever its dated charms – the work never endured in the repertoire. And a collaborative opera has obvious potential to suffer uneven quality.

Instead *The Philosopher's Stone*, in the Boston Baroque's concert performance, was delightful as an evening of music – partly because it was substantive and a recognisably direct precursor to *The Magic Flute* – and partly because even second-rate *Mozartian* music can be a lot of fun.

Sections attributed to Mozart did not sound distinctive, and it's clear that this team of *composer-performers* (Schack sang the original Tamino; Gerl the first Sarastro; Schikaneder the Papageno) were skilled enough to hide the seams in their work.

The plot of a 18th century Viennese fairy-tale opera was constructed by formula, and will be as familiar as *The Magic Flute*. A pair of nobles endure hardships brought down upon them and admirably save themselves through love and virtue. Meanwhile a rustic couple must navigate complications of their own doing, or at least due to their own weakness and foibles. *Magical animals*, sorcerers and comic errors fill in the plot. In the end, all get their proper reward.

And the concert *performance* by Boston Baroque left an enduring impression. Martin Pearlman conducted a fine chorus and period-instrument orchestra. The cast was convincing if generally only vocally adequate.

Soprano Judith Lovat sang the noble Nadine (a Pamina counterpart) and tenor Paul Austin Kelly was Nadir (like *Tamino*). *As intended from* the plot, most endearing were Kevin Deas as the groundskeeper Lubano (Papageno) with Jane Giering-*De Haan as his Lubanara*. Sharon Baker, Kurt Streit and Alan Ewing sang the principal non-mortal roles. Narration in English, *written by Robert Scanlan* and delivered with panache by Alvin Epstein and Carmen de Lavallade, replaced the original German dialogue.

This performance used the edition prepared by David Buch, an Iowa scholar who made the Mozart discoveries while rummaging around a library in Hamburg two years ago. There he found an unknown copy of the *The Philosopher's Stone*, recently returned among archives seized as Soviet war booty.

Stone had previously been attributed solely to Henneberg, but the manuscript Buch found included the names of the five composers *and the sections they contributed*. "Von Mozart" appears above the duet "Nun Liebes weibchen" – which is included in the Philips *Complete Mozart Edition*, although its authenticity was still debated.

His name also appears above portions of the act two finale, *although if it's clear* where Mozart's contribution begins, it is not clear where another composer's took *over. Further, there are* chances that one composer started a section only to have it completed by another. Researching a book on *fairy-tale* operas of the late 18th century, Buch also found Mozart's name connected to another opera from the same players, *Der Wohltatige Derwisch (The Beneficent Dervish)*.

A recording was being made in Boston just after these likable performances, and is scheduled for release on Telarc this spring. Much of the strength of *The Philosopher's Stone* comes not from the smattering of possibly Mozartian music, but in the appeal of its light-hearted Singspiel style, one that *Mozart borrowed for The Magic Flute*. Thus in addition to its commonly-known Masonic imagery, scholars must now place *The Flute solidly among* the well-honed traditions of Viennese fairy-tale operas.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
Adriaen de Vries (1566-1626): Imperial Sculptor. Major exhibition celebrating the work of the Dutch sculptor, who worked for Emperor Rudolf II and other European courts; from Dec 12 to Mar 14

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Queen of Spades: by Tchaikovsky. *Conducted by* Semyon Bychkov in a new staging by Lev Dodin; Dec 11, 14, 17

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203090
● Berlin Symphony Orchestra: conducted by Otto Ruthenberg in Mendelssohn's Paulus oratorio, with the Pro Musica Choir; Dec 12
● *Rundfunk-Sinfonieorchester* Berlin: conducted by Robin Gritton in Handel's Messiah, with the Rundfunkchor Berlin; Dec 14

OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Siegfried: by Wagner. Conducted by Barenboim in a staging by Kupfer, with a cast including John Tomlinson; Dec 11

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
High Renaissance in the Vatican: *Art and Culture at the Papal* Court (1503-34). The early 16th century saw Rome establish itself as the centre of art in Europe: the Vatican commissioned work from such great artists as Leonardo da Vinci, Michelangelo and Raphael. This exhibition displays some of the masterpieces that resulted, as well as detailing the contexts in which they were produced; from Dec 11 to Apr 11

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Rise and Fall of the City of *Mahagonny*: by Kurt Weill, libretto by Bertolt Brecht. Conducted by Sylvain Cambreling, with a cast including Catherine Malfitano and Kim Begley; Dec 13

DUBLIN

THEATRE
Abbey Theatre
Tel: 353-1-878 7222
The Rivals: by Sheridan. New production directed by Brian *Brady and designed by Conor* Murphy, with lighting by Trevor Dawson; to Jan 23

FRANKFURT

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
● Die Zauberflöte: by Mozart. Conducted by Guido Johannes *Rumstadt in a staging by Alfred* Kirchner. With a cast including Britta Stallmeister and Kirsten Blanck; Dec 12
● Eugene Onegin: by *Tchaikovsky. Conducted by* Catherine Rückwardt in a staging by Rosamund Gilmore, with sets and costumes by Carl Friedrich Oberle; Dec 11, 13

HONG KONG

DANCE
Sha Tin Town Hall
Swan Lake: by Tchaikovsky. *Performed by the Kirov Ballet*; Dec 11, 12

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Sir Colin Davis conducts a series of works by Elgar; Dec 13

Queen Elizabeth Hall
Tel: 44-171-960 4242
Jugalbandi: Hindustani and South Indian classical music performed by musicians from India, North America and Britain; Dec 11

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Boris Godunov: by Mussorgsky. Conducted by Noel Davies in a new staging by Francesca Zambello, with sets by Hildegard Bechtler. Gidon Saks sings the title role; Dec 11
● La Traviata: by Verdi. Jonathan Miller's production includes Sandra Ford and Christopher Booth-Jones among the cast. Paul Daniel conducts; Dec 12

MANCHESTER

CONCERT
Bridgewater Hall
Tel: 44-161-907 9000
Hallé Orchestra: performing Elgar/Payne's Symphony No 3. Mark Elder conducts; Dec 17

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Daniele *Gatti in works by Berg, Wagner* and Hindemith. With mezzosoprano Marilyn Schmiege; Dec 16, 17
● Rundfunkorchester des Bayerischen Rundfunks: conducted by Heinz Hennig in works by Bach, Schubert, and Mendelssohn-Bartholdy; Dec 13
● Symphonieorchester des Bayerischen Rundfunks: *conducted by Rafael Frühbeck* de Burgos in works by Brahms, Ravel and Falla. With piano soloist Alicia de Larrocha; Dec 11
● Tschaikowsky-Symphonie-Orchester des Moskauer Rundfunks: conducted by Vladimir Fedossejew in works by Dvorák and Tchaikovsky. With cello soloist Mischa Maisky; Dec 15

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Lucia di Lammermoor: by Donizetti. New production by *Nicolas Joël. Ruth Ann Swenson* sings the title role and Carlo Rizzi conducts; Dec 11, 15

PARIS

CONCERT
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With soprano Susan Anthony, *mezzo-soprano Marjana Lipovsek* and tenor Wolfgang Bünten; Dec 12

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Merry Widow: by Franz Lehár. Conducted by Armin Jordan and with a cast including *Frederica von Stade and Hakan* Hagegard; Dec 12

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
The Magic Flute: by Mozart. Jean-Claude Malgoire conducts and the staging is by Pierre Constant. With La Grande Ecurie et la Chambre du Roy and the Maîtrise du Centre de Musique Baroque de Versailles; Dec 11, 13, 15

PRAGUE

DANCE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Nutcracker: by Tchaikovsky, in a staging by Russian *choreographer Jurij* Grigorovic, with sets and costumes by Simon Virsaladze; Dec 17

OPERA
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Devil and Kate: by Dvorák. Conducted by Jan Stych in a *staging by Marián Chudovský*, with sets and costumes by Adolf *Born; Dec 12*

SAN FRANCISCO

OPERA
San Francisco Opera
Tel: 1-415-864 3330
Peter Grimes: by Britten. Conducted by Donald Runnicles in a staging by John Copley; Dec 11, 13

VIENNA

OPERA
Staatsoper
Tel: 43-1-51444 2960
Aida: by Verdi. Conducted by Viotti, with a cast including Olga *Borodina; Dec 13, 16*

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● ***Business/Market Reports:*** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

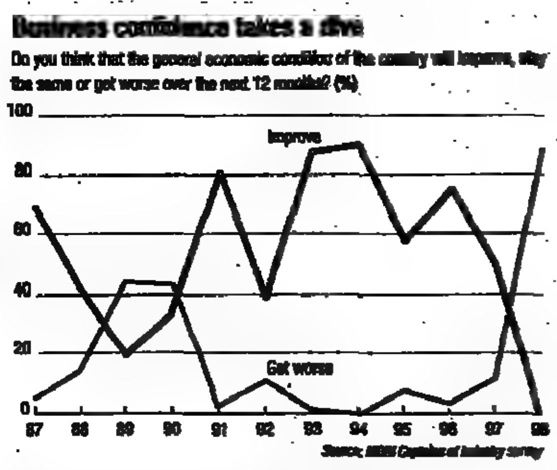
At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

A stitch in time

Robert Chote charts the ascendancy of interest rate 'activists' at the Bank of England

Having been criticised for raising British interest rates too slowly during the early months of its independence, the Bank of England is wasting no time getting them down.

The Bank's monetary policy committee voted yesterday for a half point cut, the third reduction in as many months. The committee said the downside risks to growth and inflation had increased since the publication of its *Inflation Report in November*. Rates had therefore been cut "to keep prospective inflation on track to meet the 2.5 per cent target".



Rates have now fallen by 1.25 percentage points since October. This has taken the repo rate back to the 6.25 per cent that the Bank inherited from Gordon Brown, the chancellor, when he surrendered control of monetary policy in May last year.

The contrast between the rise and fall in rates that has taken place since the Bank gained independence is marked. On the way up the Bank never moved in steps of more than a quarter-point and it took 13 months to get to the peak. On the way down rates have twice been cut by half a point and it has taken just three months to cover the same ground.

This difference illustrates how interest rate "activists" have gradually gained the upper hand on the committee. The members with academic backgrounds tend to believe that interest rates should be adjusted quickly in response to changing economic conditions, even if this means that a move might need to be reversed.

The "wait and see" school is wary of this approach, as befits the traditional caution of career central bankers. It fears that chopping and changing rates creates uncertainty in financial markets, making it difficult for policymakers to send clear signals. The committee's credibility might also be undermined if it admits a mistake.

Public perception and economic theory favour different camps in this debate, as Professor Charles Goodhart, one of the independent experts on the committee, explained in a recent lecture.

Non-economists think changes of mind "are to be deplored and castigated as evidence of error, irresolution and general incompetence". But economic theory suggests they should take place four times as often as they do in practice.

The debate between the two schools has surfaced on several occasions over the past 18 months. But the minutes of November's meeting demonstrated the degree to which the activists now seem to have brought their colleagues on board.

Eight members backed a half-point rate cut, with über-activist Professor Willem Buiter even favouring a 75 basis point reduction. The minutes noted that the rate cut might have to be reversed if average earnings data were revised upwards, but "that was not *per se* an argument for moving in small steps now".

However, there is more to monetary policy activism than a willingness to risk reversing decisions. A different, but related, question is whether a desired change in interest rates should be pursued in a few large steps or several small ones.

This is relevant if the committee is now trying to move interest rates back towards "neutral". DeAnne Julius, the most consistent dove on the committee, has been arguing since May that this is what needs to be done.

Identifying a "neutral" interest rate is not as easy as it sounds. One approach is to add the policymakers' desired 2.5 per cent inflation rate to the average real (for inflation-adjusted) interest rate seen in recent years. Real interest rates have typically varied between 3 and 4 per cent, which implies a neutral nominal interest rate of 5.5 to 6.5 per cent.

But where should actual interest rates stand relative to this neutral rate at any particular point in time? Many economists use the so-called "Taylor Rule" to answer this question. This says that interest rates should differ from their neutral level by one-half of the deviation in national output from its "trend" level and one-half of the deviation in inflation from its target.

The Treasury argued in its Pre-Budget Report last month that output was barely above its trend level. With inflation exactly on target at 2.5 per cent, this *implies that interest rates* should be at their neutral level. On this basis rates are at or only slightly above their appropriate level.

Having said this, economic growth is expected to fall well below its 2.25 per cent trend rate next year, which will take output below its trend level. According to the Taylor rule, this implies that further interest rate cuts will be appropriate in coming months if inflation remains at or below target.

The Bank noted yesterday that falls in commodity prices were set to reduce import costs and inflationary pressures directly. But this could be offset by the effects of a weaker pound.

The financial markets certainly expect rates to fall further. The short-sterling futures contract suggests that rates are likely to be cut by at least another half-point by the end of the first quarter next year.

The Taylor rule has tracked interest rates in large economies quite effectively in recent years, but it is of limited assistance as a detailed guide for policy. Not only are estimates of the appropriate real interest rate uncertain but so are estimates of the deviation of output from trend. If the economy's output is further above the trend level than the Treasury believes, then interest rates should still be above their neutral rate.

These uncertainties will have been in the minds of the MPC as it pondered yesterday's decision. But of more immediate importance was the way that events have turned out since the Bank published its Inflation Report last month.

The Bank expected the economy to show signs of greater weakness, but its performance has been worse than expected. Business and consumer surveys paint an almost universally gloomy picture, with MORI's annual survey of captains of industry showing far greater pessimism about the prospects for the economy than it reported in the run up to the early 1990s recession. There is also growing evidence that companies have accumulated excess stocks of unsold goods which they will wish to clear. Adjustments of this type can slow economic growth abruptly.

If this happens, the committee may well conclude that interest rates should be cut some way below their neutral rate to prevent a mild technical recession becoming something worse. The lesson of the last three months is that is they will *not waste time in doing so.*

LETTERS TO THE EDITOR

UK government's economic illiteracy

From Dr John Wells.

Sir, the attempt in your editorial ("United they fall", 5 December) to defend the government's remit to the Bank of England's monetary policy committee from the charge that it risks imparting a deflationary bias to the real economy is unconvincing.

You argue that, since the UK inflation target is symmetrical, in situations where the economy is subject to either positive or negative demand shocks, using monetary policy to target inflation tends to stabilise output and employment as well.

However, while the inflation target is symmetrical, the economy – in particular *the relationship* between employment/unemployment and inflation in the region of the non-accelerating inflation rate of unemployment (NAIRU) – most certainly is not. It is precisely because of non-linearities in this relationship that A.W. Phillips's empirical findings are referred to as a curve. Thus, at high levels of activity above the NAIRU, inflation accelerates much faster than it decelerates at low activity levels below the NAIRU.

Such non-linearities mean that when price disinflation occurs, the monetary authorities may find it difficult to assess the extent to which output is deviating from desired levels. Hence, inflation-targeting in a demand-shocked economy risks imparting a deflationary bias to the real economy. When, as at present, supply shocks (in the form of sterling's appreciation and East Asian currency depreciation) coincide with adverse demand shocks, and all the errors involved in successful inflation-forecasting at the two-year horizon are considered, inflation-targeting becomes even more problematic.

New Labour's sparse policy regime – monetary policy targeted on inflation and fiscal policy focused on budget consolidation – has been *little short of disastrous for* the real economy. Not only has the composition of output between the internationally exposed and sheltered sectors become dangerously unbalanced (as disinflation through sterling's appreciation posed an excessive adjustment burden on manufacturing and internationally exposed services) but now the level of economy-wide gross domestic product is under threat as well. Meanwhile, the NAIRU, which the MPC in effect targets, is way below full employment reasonably measured – leaving 1.8m unemployed and seeking work and a further 2m without jobs and wanting to work.

Relying on the one club policy of using interest rates to achieve multiple policy objectives is economically illiterate, apart from being barking mad. Governments of modern economies, rather than seeking to put policy on auto-pilot, need to deploy all the policy instruments available to them.

Dr John Wells
University of Cambridge
Sidgwick Avenue
Cambridge, UK

Liquidity is the biggest challenge for promising eastern stock markets

From Mr Lester E. Satlow.

Sir, the Central European capital markets are indeed gaining strength as they mature on their own merits, but each of the markets will grapple for some time still with its particular weaknesses ("Central and eastern Europe look up", December 7).

Hungary, for example, did post strong earnings growth of about 43 per cent this past quarter. However, that figure tells only part of the story. With annual inflation at about 12 per cent and the local currency's devaluation at about 6 per cent, real earnings growth is only 24 per cent.

Furthermore, if the three largest Hungarian stocks are stripped from the equation, earnings would be slightly negative.

This problem highlights one of the biggest challenges facing promising but young markets such as Hungary and Poland: liquidity.

With a market capitalisation of $40bn in Hungary, Poland and the Czech Republic, there is actually no more than a small handful of companies in each central European market that can support large-scale investment from global fund managers who demand an escape hatch from their holdings, particularly in volatile times such as these. That in large part has resulted in foreign capital inflows being speculative in nature, barring capital that is dedicated to the region.

A few more years of solid macro-economic development and micro-economic growth will go a long way towards convincing global investors that central Europe can offer on a long-term basis both the depth of liquidity and the breadth of choice.

Lester E. Satlow,
Global Investor Publishing,
Editor
Central Europe Portfolio,
50 Follen Street,
Cambridge, MA 02138,
USA

Investors have nothing to fear from Chávez

From Ajay Kaul.

Sir, Investors need not feel sceptical about the new Venezuelan government headed by Hugo Chávez.

In fact the free world has time and again proved that as we enter the new millennium, economics is going to be a guiding factor in a *majority of our* decisions. Investors should be relieved that contrary to other South American nations, democracy has had a very strong foothold in Venezuela. Hence governments in Venezuela can only go for the prosperity of the people.

Venezuela has a strong middle class and it is this section of the populace that needs economic growth to create more jobs. In fact Venezuela opened most sectors of its economy under the previous regime just to ensure the well-being of the populace.

However, investors have to be careful not to press the panic button that leads to an economic collapse in Venezuela *and* creates a false impression that foreign investment is harmful for the economy. Mr Chávez needs to be given a fair chance to prove himself. Investors should react to concrete information and not speculation. For, if the economy collapses after the barriers are imposed upon free trade, the pressure from the people will cause such decisions to be reversed. So as long as Mr Chávez follows the path of his predecessor, Rafael Caldera, investors can stay calm and let the economy flourish as well as their returns.

Ajay Kaul
Project Manager
First American Credco
1450 Frazee Road, Suite 100
San Diego, CA 92108 USA

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

Transatlantic surge

Scottish Power is attempting one of the most ambitious utility mergers yet seen in the US. **Christopher Parkes** examines whether it can succeed.

The foreign invasion of the US utilities industry has begun. Scottish Power this week became the first non-US company to storm the $230bn (£139bn) electricity market, with a $7bn agreement to buy PacifiCorp.

The Scots are unlikely to remain the only foreign invaders for long. Belgium's Tractebel, controlled by Suez Lyonnaise des Eaux, has been scouting for deals in the US, and PowerGen, another UK company, has also held talks with Houston Industries.

Domestic merger and acquisition activity is also likely to speed up as the industry moves hesitantly towards deregulation.

The Scottish intrusion generated excitement within *the industry, but investors* were unimpressed. The stocks of Scottish Power and PacifiCorp fell on the news.

"What is the logic? Is this a match made in heaven?" asks Peer Munck, a utilities specialist at Diamond Technology Partners, a management consultancy in Chicago. "The market says no."

Morton Pierce, head of M&A at Dewey Ballantine, a law firm, agrees that the benefits of the merger are not readily apparent.

Although the US industry has been changing shape for almost 20 years, speeding up in the past decade as the prospect of nationwide deregulation looms, it may be too early for such grand projects as cross-border mergers, Mr Pierce believes.

He points to the $950m link-up between BEC Energy and Commonwealth Energy System, two Massachusetts utilities, overshadowed by Scottish Power's announcement on Monday, as an example of a deal more in tune with the current stage of the sector's reconfiguration. Their proximity will allow them to fuse their *operations* and squeeze out costs in a way that is likely to elude the Scottish Power/PacifiCorp transatlantic combine.

"It has taken them all their lives to get to this point," he says of the merger between the former New England monopolies. Yet he sees foreign intervention as inevitable: "Ready or not, here it comes."

Despite two decades of restructuring, the US utilities sector is still in a state of flux.

Electricity groups are combining with gas and water providers, as pipeline operators merge with gas gatherers in the expectation that enlarged generators will demand one-stop shopping for their fuel supplies.

At the same time, full-service power concerns are splitting into separate generation, distribution and marketing companies, while retailers with no assets bar their trading skills are springing up everywhere.

One factor complicating consolidation is the uncertain future of deregulation.

A federal legislative blueprint, which experts say is essential to establish basic ground rules and a level national playing field, is still years away. This means that market liberalisation is proceeding at different speeds in different states, with California and Massachusetts in the lead.

"No one has a clear grasp of where deregulation is going, or the timetable," says Mr Pierce. But uncertainty is itself exerting a powerful influence over the industry. Mr Pierce says many companies believe that, whatever the outcome, they are "better off being bigger".

This is especially true for *power distributors*. There are more than 3,000 distributors in the US, about 230 of which are really large. Of the remainder, many are under municipal control and are seen as likely candidates for privatisation.

"It's like the early days of telecoms deregulation," says Mr Pierce. "There is bound to be a huge consolidation."

The role outsiders will be allowed to play is uncertain. Scottish Power may find itself cast in the role of guinea pig. Federal regulators have the power to hamper or block foreign acquisitions of "strategic" national assets, such as electricity distribution systems and broadcast television networks.

State public utility commissions also tend to be protective of their regional interests, and are unlikely to welcome outsiders with open arms, whether they are foreign companies or national concerns from elsewhere in the US, without firm guarantees on low prices for consumers and the security of supplies.

Mr Munck sees this as an especially tricky issue for Scottish Power, which has elected to merge with a company that has interests in seven states in the western US.

As the first outsider into the fray, the Scottish company will be moving in uncharted territory as it comes to grips with the very different regulatory environment that exists in the US.

Nevertheless, the union *could still be a happy one*. PacifiCorp is known for its expertise in large-scale power wholesaling. This could make a good complement for Scottish Power's experience in operating a hybrid group in a deregulated environment.

Such qualities may eventually compensate for the lack of obvious conventional synergies that appeared to disappoint investors when the deal was announced.

Economies of scale could still be within reach. If the deal is given regulatory approval, and no counter-bids emerge, Scottish Power's financial clout might allow the combine to expand across the west, reducing costs as it added acquisitions.

In that case, observers wonder, why did the British company not choose a less cumbersome target? Scottish Power might have been better advised to reduce the risks of regulatory tangles by bidding for a company with more compact regional interests.

The answer is that it did make overtures to smaller utilities, including Florida Progress and Cincinnati's Cinergy, but they led nowhere.

For better or worse, Scottish Power is attempting one of the most ambitious utility mergers yet seen in the US.

"They could make savings and increase shareholder value if they start to round up other distribution companies," says Mr Munck. "If that is the case, then this is just the beginning."

'No one has a clear grasp of where deregulation is going . . . many believe they are 'better off being bigger' '

Morton Pierce
Dewey Ballantine

Foreign invaders: Ian Russell, finance director (left), and Ian Robinson, chief executive of Scottish Power

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Friday December 11 1998

Hard bargaining in Vienna

The battle lines are drawn for another mighty clash in the European Union over money: who pays what, and how it is spent. It is a good question, because it goes to the heart of what the EU should be doing. It is also profoundly divisive, for it threatens to set northerners against southerners, the big payers against the big spenders. At the EU summit in Vienna today, the differences look too wide to bridge.

The trouble is that far from being too radical, the plans on the table are probably too cautious to lay the foundations for a lasting deal. That has to pay for the plans of the present 15 member states, and enlargement to 20 or more in the not-so-distant future.

One problem is how to satisfy the Germans, who are fed up with being the paymasters of the union. They want their net contributions cut from the DM22bn ($13bn) a year they pay now – more than four times as much as anybody else. At the other end stand the Spanish, adamant that they will not give up their "cohesion" funds, which they see as the price for opening their market to the rest of the EU. And in the middle is the UK, the only member state to get a rebate on its net payments, and now determined not to give it up.

Two factors need to be borne in mind. One is that the EU is not simply about spending money. Its role in ensuring a single market and in promoting competition is far more important. The second is that when it comes to spending money, the EU has a poor record in terms of efficacy and transparency. Far too many programmes have to be criticised for inefficiency and fraud. That suggests the Brussels budget should be kept within a tight ceiling.

Any new deal should tackle the problem of fairness both on revenue and spending. The European Commission's proposals only deal seriously with the latter. Contributions to the EU budget should be linked to a much greater extent to per capita gross national product, and thus reflect relative prosperity as closely as possible. At present, some 48 per cent of the budget finance is linked directly to GNP. That should be increased.

The real distortions arise, however, on the spending side, and above all because of the agriculture budget. When it reached 70 per cent of total spending, it was the real cause of Britain's unfairly high net contribution: the UK had too small a farming sector to get a fair share. The regional funds were created to redress the balance and, eventually, the British rebate.

Farm spending today still accounts for some 50 per cent of the EU budget, which is absurd for an industry which accounts for only 1.8 per cent of gross domestic product. The reform debate under way needs to bring that down to 30 per cent or less.

Cohesion funds must be phased out to provide more cash for the future member states in eastern Europe. Madrid knows it will have to accept that in the end. And the UK government should demonstrate its willingness to pay its share of future enlargement costs, by agreeing to negotiate on the size and mechanics of the rebate – in exchange for a far more radical farm reform than is currently on the table. If that is the outcome of the present debate, it will have been well worth having.

Battle won

South Korea's agreement to repay $2.8bn of the money it was lent by the International Monetary Fund is a reminder of how far the country has come since the height of its crisis a year ago.

In that period the balance of payments has been turned round, reserves have been rebuilt from a paltry $7bn to $46bn, a currency that was in free fall has been stabilised, and interest rates are now well below where they were when the crisis started. By all those yardsticks the international rescue operation must count as a success. It has contained a problem that at one point threatened to destabilise the global financial system.

Still, neither Korea nor the IMF can afford to rest on its laurels. The present achievement has come at large cost. Gross domestic product contracted at an annual rate of 6.8 per cent in the third quarter and the outlook for next year remains gloomy. The mean expectation of private sector forecasts is for a further decline of 0.3 per cent, according to Consensus Economics.

It will take a further effort at structural adjustment to rebuild Korea's longer-term growth prospects. Too much of the squeeze so far has hit small companies, while the large conglomerates have been able to defer reorganisation by borrowing heavily in the bond market. The restructuring plans announced this week are fine as far as they go, but large questions remain about the degree to which surplus capacity will be taken out of the industrial system, and about the speed with which the companies will reduce leverage to reasonable levels.

This will not be easy in a climate of stagnation. After the shock they received a year ago, the Korean authorities will doubtless be determined to prevent their reserves ever again falling to such critical levels. Indeed, the experience of the crisis shows the need for a strong reserve cushion to support open capital markets. It would thus be understandable if Korea were to seek yet higher reserves.

But this must be balanced with the need to seek out growth. When the crisis was raging, it had to be dealt with and the pain was inescapable. Now, in this new phase comes a much harder task of maintaining the momentum of reform, pressing on with bank restructuring, and setting the right macro-economic climate for recovery. Getting the balance right will be hard for both Korea and its advisers. The battle has been won but the war is not over.

The second half

It was the expected move, and the right one. The Bank of England's third successive cut in interest rates yesterday also suggested that its monetary policy committee is getting its act together.

After it was formed in May 1997, the committee got off to a rather shaky start. Some of its members had not yet taken up their posts and the others were, no doubt, feeling their way. Still, the MPC was too slow to raise its repo interest rate, moving it cautiously in six steps from 6 to 7.5 per cent by June this year.

Earlier and more decisive moves, urged by some of the committee, might have helped to consolidate its authority and, more important, to cool the economy a little earlier. As events turned out, no harm was done. The deepening world financial crisis in August and September, and the sharply reduced prospects for the global economy pre-empted fears that the UK might be running into yet another inflationary boom.

The MPC's reaction, hesitant at first, with only a quarter point cut in October, but followed by two successive half point cuts, now suggests a welcome shift towards activism. The risks to the world economy were recognised earlier by the US Federal Reserve, which has reduced its official interest rate from 5.5 per cent to 4.75 per cent since September 29.

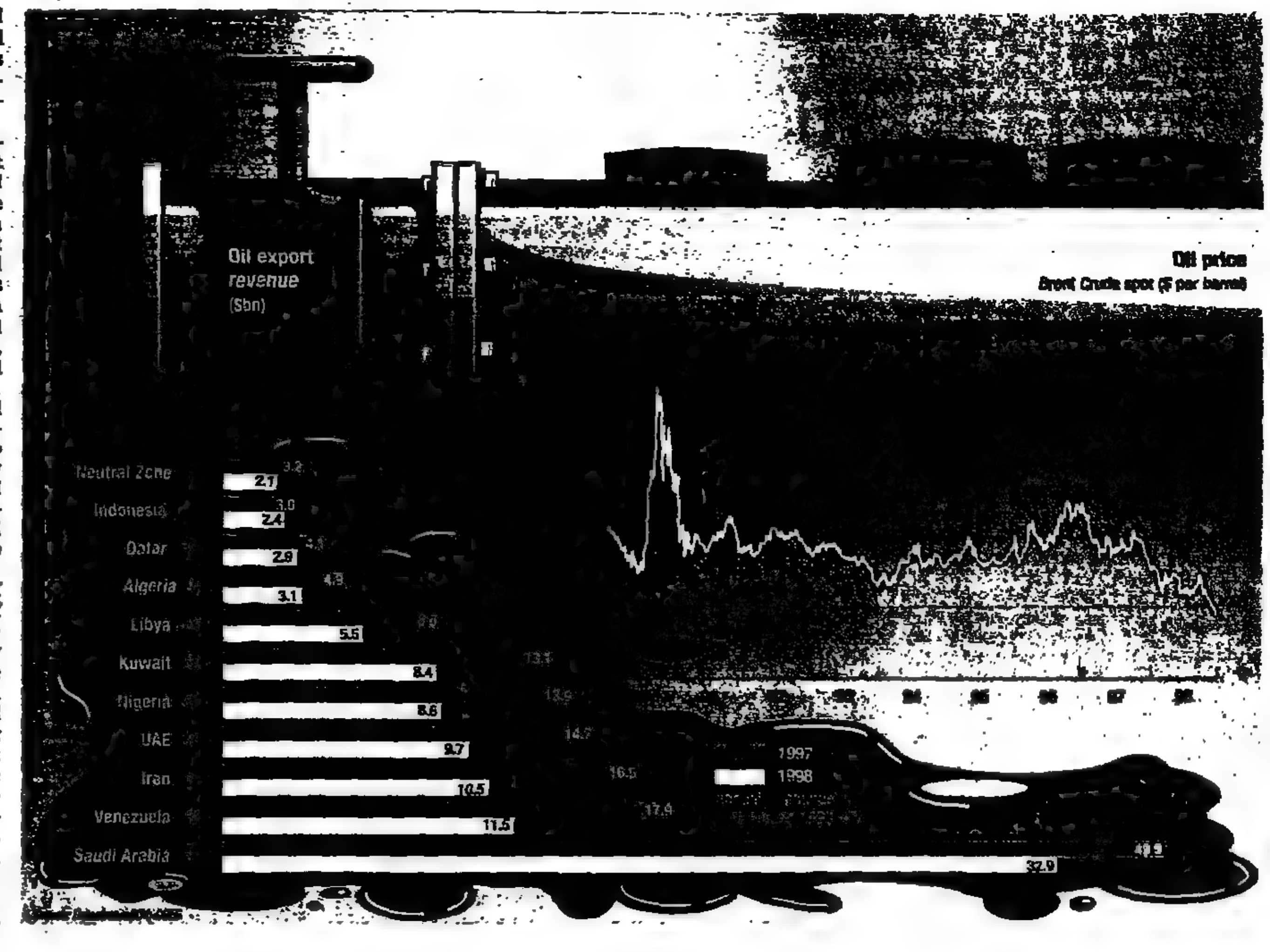
Despite much anxious consultation between finance ministers, Europe's central bankers were slower to react. But they are now falling more into line. Last week's cut to 3 per cent in the euro-zone and yesterday's move to 6.25 per cent by the MPC must have been made with at least one eye on the global economy.

The Bank's main responsibility, of course, is to keep inflation close to the target of 2.5 per cent. It is not charged, as industrial lobbies still seem to believe, with preserving UK jobs or exporters' margins – still less with propping up the world economy.

Yet the risk of a contagious deflationary spiral cannot be dismissed, although it is now much less than in the early autumn. In the UK, this risk is still balanced by the possibility that wage pressures might revive, particularly if sterling were to collapse. For this reason, UK rates will need to be substantially higher than in the euro-zone for some time. But provided the economy (including the service sector) continues to slow down, there should be room for further cuts next year.

The wealth dries up

Robert Corzine and **Robin Allen** examine how the world's main oil-producing nations are struggling to cope with the calamitous fall in prices



The usual array of gold taps, chandeliers and limousines at this week's Gulf summit provided a reminder of the ostentatious oil wealth of the region.

But the smugness that traditionally characterises speeches at the Gulf Co-operation Council was replaced this year with dire warnings about the collapse in oil prices. "The days of abundant oil [revenues] are over and will not return," Saudi Arabia's crown prince Abdullah Bin Abdul-Aziz, told the princes and sheikhs of Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates.

The royal warning came as oil prices fell below the psychological threshold of $10 a barrel to test fresh 12-year lows. Yesterday Brent oil closed at a new record low in London of $9.17½. Twenty-five years after the first oil shock, prices in real terms are now lower than in 1973.

The sudden emergence of cheap oil – at the beginning of 1997 it was almost $25 a barrel – has been a boon for a shaky world economy. It has been one of the main reasons why inflation in most of the industrialised world has stayed low, thus giving central bankers confidence to cut interest rates. In the US, where gasoline costs less than Coca-Cola, cheap oil has helped sustain the economic boom that is keeping the threat of a world recession at bay.

But for many oil producers – some volatile in the best of times – low prices are little more than a disaster. Two oil producers – Russia and Indonesia – have seen political turmoil added to financial panic. Another, Venezuela, has just elected a populist former leader of an attempted coup. All are being savagely squeezed. The collective oil revenues of members of the Organisation of Petroleum Exporting Countries are expected to fall by some $50bn (£30.1bn) this year.

Among the worst hit are the governments of Latin American oil exporters, notably Venezuela, Mexico and Ecuador. The price slump has forced each government to cut capital expenditure programmes to the bone, trim current spending and raise taxes elsewhere. "We are quite concerned," says Paulo Leme, head of emerging markets research at Goldman Sachs in New York. "Latin America oil producers, but especially Venezuela, face extraordinary challenges."

Venezuela is the biggest Latin American producer and one of the largest suppliers of oil to the US. Its government initially budgeted on an average price for its particular mix of crude oil of $15.50 a barrel for 1998. The price is now just more than half that amount at $8.05 per barrel. The economy is expected to contract by between 1 per cent and 2 per cent, compared with an expansion of more than 5 per cent in 1997.

Unemployment has risen sharply, up to 12 per cent according to official figures but to as much as 20 per cent according to the private sector. With the fiscal deficit rising to an expected level of more than 9 per cent of gross domestic product, president-elect Hugo Chávez, who takes office in February, will be under pressure to cut spending when popular expectations for an improvement in living standards are rising.

Mexico, Latin America's other big oil exporter, has also been hit hard. Although it is less dependent than Venezuela on oil for export revenues (mainly because of the growth of manufactured exports), Mexico still relies on oil taxes for nearly one-third of its revenue. For every dollar fall in the price of oil, Mexico loses an estimated $850m in fiscal income.

For Russia, of course, the oil price fall was just one of a number of problems, albeit among the most serious. It is also one of the factors that threatens to undermine any recovery.

Alexi Zabotkin, an economist with United Financial Group in Moscow, estimates that oil and gas together account for up to 45 per cent of tax revenues, 25 per cent of GDP and 10 per cent of employment. "Most of the troubles of the Russian economy this year were the result of the falling oil price. It put pressure on the exchange rate and made the government unable to defend the rouble," he says.

As an emerging market, Russia suffered grievously when the oil price fell. Even rich Norway, the world's second biggest oil exporter, is feeling the pinch. According to recent forecasts by the statistics bureau, record low oil prices, combined with high imports, mean its current account this year will show a deficit for the first time since 1989. In addition, the bureau adjusted its forecast for GDP growth next year downwards from 1.9 per cent to 0.8 per cent.

Lower oil revenues means Norway will transfer less than the expected NKr58bn (£4.63bn) to the government's petroleum fund, the investment vehicle for its oil surpluses. The poor performance of the Oslo stock exchange in November was blamed on oil pessimism undermining offshore construction and shipping shares.

But it is the Gulf, where almost half of the world's reserves are located, that may have the most trouble coping with oil's collapse.

Iran, the region's most populous producer, depends on oil revenues for 80 per cent of hard currency earnings, and some 75 per cent of total government revenues. Oil earnings are down this year by more than 40 per cent, a big factor behind Iran's recent default on loans from international banks.

According to senior Western diplomats in Tehran, the Iranian central bank paid only 10 per cent at the end of September of DM255m (£91.3m) due in principal and interest to Germany's AKA Ausfurkredit, a consortium of 42, mainly German banks, specialising in export credit. In October Sace, Italy's export guarantee agency, received only one $7m interest payment out of $61m due in principal and interest on total debt to Italy amounting to some $600m. According to the central bank, Iran has $3.3bn of 12-month debt maturing this fiscal year (to 20 March 1999), and a further $8.8bn "medium-to-long-term".

The financial position of the Gulf states has deteriorated even faster. Their dependence on oil has "been diagnosed to death", says one Gulf banker, but as oil prices have tumbled, the tone of the debate has sharpened. Editorials in Gulf newspapers have urged leaders to go beyond their usual statements and take practical decisions to shield regional economies from low oil prices.

By virtue of its wealth and size, Saudi Arabia is the lynchpin for the success or failure of structural reforms. This year, its fiscal deficit, budgeted at $4.8bn, could turn out to be $15bn, around 12 per cent of GDP. Saudi bankers say the deficit could be even higher, given that the average price of the basket of Saudi crude is $1.50-$2 below the Brent benchmark (and that Saudi Arabia is now offering discounts to retain market share in the US). Domestic debt has risen from 80 per cent in 1996 to over 100 per cent of gross domestic product.

This is leading to (by Saudi standards) extraordinary measures. Last summer the government used the high credit worthiness of Saudi Aramco, the national oil company, to borrow $4.6bn on the domestic and international markets; at the end of last month, the government is also thought have borrowed $5bn from Abu Dhabi (the loan has been confirmed by a UAE minister but denied by the Saudi finance minister). At the end of August, the government spent at least $1bn in one day to defend its currency, the riyal; this week it has again been back in the markets doing the same.

The question now is whether these financial pressures lead to economic change – or to a clash with religious conservatives and other vested interests resistant to change.

"Saudi Arabia at heart is a conservative and introvert country," said a senior Saudi banker. "If the business community and many of the young want reforms, at least half the country, the traditionalists, do not. They see oil as a divine gift to compensate for centuries of a harsh, impoverished existence. Deep down they are convinced that in 10 years time they, and Abu Dhabi, Kuwait and Iraq, will be back in the driving seat. With this mindset, structural reforms are simply another form of undesirable western import."

The royal house will play a critical role in determining how the country responds. As in every Gulf state, the difference between the government and the ruling family is fuzzy.

On average half of all the members of each Gulf cabinet belong to that country's ruling family. The others are their nominees. Institutions are subordinate to the whims of individual personalities. A mere royal decree can create or unmake an institution.

When it comes to solving Saudi Arabia's economic problems, the role of the royal family cuts two ways. On the one hand, creating a self-sustaining private sector is made more difficult because the government is dominated by the ruling Al-Saud family, and the country faces the prospect of a series of elderly monarchs, who are their own prime ministers, too old to initiate and see through institutional reform.

On the other, the Saudi royal house could, in principle, solve the government's financial problems at a stroke, if it wanted to. In December 1996, Michael Giles, chairman of international banking at Merrill Lynch, estimated that 78,000 wealthy Saudi individuals (many of them members of the royal house) owned a stunning $421bn of liquid assets. In the Gulf as a whole, about 185,000 people then owned $718bn. Now about 200,000 wealthy Gulf individuals own about $800bn of liquid assets, of which the Saudi share is $500bn. That puts the government's financial problems into perspective.

But at the moment, the royal house does not seem likely to take the government's financial burdens on its shoulders. That leaves a stark choice for Saudi Arabia and for the Gulf as a whole: either initiate political and economic reforms, running the risk of a conservative backlash, or let things drift (perhaps in the hope that oil prices will start rising again) and risk the ire both of younger Saudis and of all those accustomed to a gold-plated welfare state that the government can no longer afford.

Additional reporting by Richard Lapper, Valeria Skold and Andrew Jack

OBSERVER

Germans catch up with Danzas

Louis Danzas must be turning in his grave. The gallant officer in Napoleon's army had more luck off the battlefield than on it – he got into the transport business after the Prussians and British beat the French at Waterloo in 1815. Then, when the Germans captured their home town in Alsace in 1871, the Danzas family moved their wagons south to Switzerland.

But where Blücher and Bismarck failed, Deutsche Post has succeeded. The German government's acquisitive mailroom operation swooped over the Alps last week and emerged yesterday clutching Danzas.

Not that everything went smoothly. The would-be European logistics leader had chartered a jet to take Deutsche Post chairman Klaus Zumwinkel and Danzas boss Peter Wagner on the short hop from Zurich to Frankfurt to brief the media. Snow and ice scuppered the plan, and the postal pair had to resort to a video link.

Meanwhile, British financier Nicholas Berry was taking a bow. He and former British Leyland boss Sir Michael Edwardes bought a stake in Danzas in 1996 and demanded seats on the board. They were rebuffed, but the affair helped shake up Danzas's management.

Until Berry and Edwardes started rattling the Danzas cage the company worked on the principle that shareholders should be seen but not heard. "The management were totally unmotivated," says Berry, who offered them some of his own shares as incentives. The offer was turned down but shortly afterwards Danzas changed its management and introduced share options.

Deutsche Post must be glad Berry doesn't plan to make a fuss about the price it's paying for his shares.

Pit bull

Compared with the hurly-burly of the trading pits, the election for the leadership at the Chicago Board of Trade has been genteel, as befits a venerable 150-year-old institution.

True, long-time chairman Patrick Arbor characterised upstart challenger David Brennan as leading an anti-progress "flat earth society" while Brennan scorned the older man for splashing out on unproven technology. But Observer has heard worse.

The "flat earth" gibe harked back a few years to the last time the two men clashed over the redesign of the trading floor. Arbor argued for trading firms' booths to be steeply tiered round trading pits, Brennan wanted them at pit level.

Brennan lost the "Battle of the Booths" but yesterday won the war when he defeated Arbor in the chairmanship poll.

Brennan is more low-key than Arbor. But few have as deep roots on the floor as the 41-year-old soybean trader. His grandfather was a CBOT member and his father and three brothers still are. It's now up to him to keep the family in work.

Bumped off

Executive Outcomes, the South African company that redefined the business of making a killing, cannot shake off its mercenary jargon even as it announces that it is closing on January 1. A statement from its Pretoria headquarters yesterday says shareholders resolved "to terminate the company". There's no substitute for experience.

Choppy waters

It's another five years before Athina Onassis, 13, takes over management of the family billions from the foundation set up under grandfather Aristotle's will. But it doesn't look as if her father Thierry Roussel will escort her to the office in Athens.

An Athens court has sentenced the Swiss-based French businessman to five years for perjury and slander in his absence, the outcome of a long legal battle with the Onassis trustees. Athenian legal types are trying to recall a stiffer sentence in a Greek family dispute. Roussel has appealed, but he probably won't choose a Greek holiday for a while.

Long before the lawsuits started flying, relations were frosty between Roussel and the Onassis trustees under Stelios Papadimitriou, a close confidant of the late tycoon.

Papadimitriou complained that Athina didn't visit her elderly relatives in Athens often and couldn't speak Greek well – though that's unlikely to improve now that her father can't take her to Greece. Roussel said the trustees had mismanaged his late wife Christina's estate and he should take over.

The trustees may be a bit prickly on the family side, but there doesn't seem to be much wrong with their business sense: the Onassis tanker fleet is at full steam under their management. Maybe Athina should get a summer intern's job at its Piraeus headquarters. Just like any other teenager from a Greek shipping dynasty.

Stitched up

The Madame Tussaud's waxworks in Sydney has done some running repairs to the figure of US President Bill Clinton. It's very popular with visitors, who like to get up close, but something kept getting unfastened. So the powers that be have sewn up the dummy's trouser zipper.

Financial Times 50 years ago

Britain in Hong Kong
The British Government is determined to maintain its position in Hong Kong. Mr. Mayhew, Parliamentary Under-Secretary of State at the Foreign Office, declared in the House of Commons yesterday. Mr. Winston Churchill, Leader of the Opposition, had called upon the Government to make it "quite clear" that British naval, air and military forces would defend Hong Kong from any assault made upon it. Mr. Mayhew rejected the Opposition's plea that Spain should be allowed to enter the U.N. and said that for Britain to sponsor such a move would be a "first-class political blunder". He also rejected the proposal that there should be a de facto recognition of the State of Israel, but said that the Government had no intention of permanently ostracising the Jews.

S. African Dilemma
Stock Exchange circles in Johannesburg think the political situation at present is that General Smuts's United Party is opening its doors for a "pact" with the Afrikaner Party, while the Nationalists are trying to dissuade the Afrikaner Party from leaving Dr. Malan's Government bloc.

FINANCIAL TIMES
FRIDAY DECEMBER 11 1998

THE LEX COLUMN

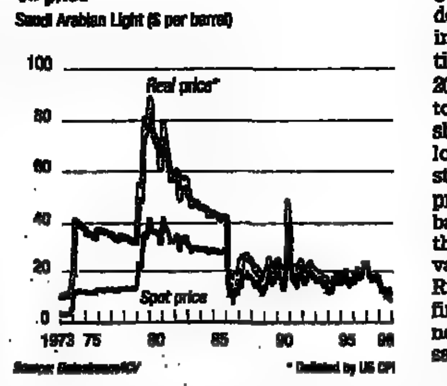
Crude shock

Oil is selling for less than $10 a barrel, metals prices are depressed and now the benchmark commodities futures index has dropped to its lowest level for more than 20 years.

In one sense this is nothing new. The trend in commodity prices has been relentlessly downwards – look through the cycles and each floor is lower than the previous one. Metal prices have been falling by 1-3 per cent a year in real terms over the past decade, and crude is back to where it was before the first oil shock in real terms. The reason is that producers, particularly in the west, have reduced costs and passed on much of the benefit. More recently, however, this trend has been compounded by Asia's slump, which has exposed the structural overcapacity in markets like nickel and oil.

So far, lower commodity prices have been a huge boon to a shaky global economy by keeping a lid on inflation. But they are now *falling so fast that their* impact could turn from disinflationary to outright deflationary. There is already evidence of a spiral where producers are dumping stocks in anticipation of lower prices. And current price levels are creating huge hangovers for Latin American and Middle Eastern economies that rely on oil and copper. Eventually, the cycle should prove self-correcting: loss-making producers will not build the new capacity needed to satisfy recovering demand. But there is much pain to face first.

Oil price
Saudi Arabian Light ($ per barrel)



Source: Datastream/ICV
* Deflated by US CPI

Ericsson

It was apparently a bit of a shock to Sven-Christer Nilsson when he was chosen to succeed Lars Ramqvist as chief executive of Ericsson at the start of this year. Mr Ramqvist, who had presided over a near quadrupling of sales and profits since 1990, is a hard act to follow, and complacency was bound to have crept into the organisation. But memories are short. Mr Ramqvist's first two years at the Swedish telecommunications group were grim. Now his successor is rightly trying *to turn a difficult operating environment* to his advantage by inciting a sense of urgency about internal change.

The reasons for the shortfall in fourth quarter profits – global slowdown hitting demand for public networks, margin pressure in mobile phones – have been apparent for much of this year. Ericsson might look a bit late in adding its warning to the likes of Alcatel or Philips, but its problems are smaller. It does, of course, compare *badly with Nokia, which has had a* bumper year, but then Ericsson's mobile phone range is older. Much is riding on next year's launches. These must not only seize back the marketing initiative, but also be made cheaply enough to live with annual price cuts of 25-30 per cent.

All this suggests that Ericsson's share price was due for a correction after an unwarranted rebound – no doubt Mr Nilsson is still learning about communication with the market. But hand-wringing over the new regime looks overdone.

Russia

Could Russia be a buying opportunity? Markets have fallen so much since the financial crisis broke that assets look extraordinarily cheap by international standards. The entire stock market, which is trading at under a tenth of its 1997 peak, is worth just $10bn. Meanwhile, spreads on government debt are stuck at default rates of around 50 percentage points over US treasuries.

Unfortunately, things are probably likely to get still worse before they get better. *The promise of greater state* involvement in the economy made by Yevgeny Primakov, the prime minister, increases the risk of nationalisation, price controls and protectionism. And with little prospect of private or International Monetary Fund lending, the maths of the government's finances point directly to default on its external debt, money-printing and accelerating inflation. Duma elections in 1999 and presidential elections in *2000 make the fiscal measures necessary* to avert such an outcome unlikely. In the short term, Russia simply has too little to lose from defaulting. Indeed, notwithstanding the vain hope for a 3 per cent primary budget surplus next year, the backsliding on good intentions to improve the tax take is under way. Plans to slash value-added tax are a case in point. Until Russia is serious about putting its own finances in order, the IMF would be right not to pour good money after bad. The same goes for private investors.

UK interest rates

Half measures are better than inaction. But a full point cut in UK interest rates would have been better still. Since the *economy is flirting with recession,* the Bank of England's monetary policy committee should have been more decisive in cutting its base lending rate. The new level, 6¼ per cent, still implies a modestly tight monetary policy. Given long-run real interest rates of 2¼ per cent and the 2½ per cent inflation target, a neutral level would be more like 5 per cent.

The latest data, such as this week's gloomy poll of business leaders, confirm the picture of an economy slowing fast. Meanwhile, inflation seems to be vanishing. Not only are commodity prices under pressure (see accompanying piece) but a new index from the British Retail Consortium suggests shop prices are falling. The Bank may not have been more aggressive in cutting rates out of fear that it would trigger a sharp fall in sterling. But interest rates have now been reduced three months in a row and the pound has barely budged. That is in part because interest rates have also been falling elsewhere. But even if sterling did retreat a bit, that would be good news for Britain's hard-pressed exporters.

All this means the Bank can be more *confident about bringing interest rates* down more rapidly in future. It should do so early in the new year unless the outlook improves. One advantage of having interest rates that are high by international standards is that the UK has more scope to cut them.

CLOUD OVER CLINTON VISIT AS NETANYAHU DEMANDS END TO VIOLENCE

Israel orders crackdown on Palestinian disturbances

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, Israel's prime minister, yesterday ordered security forces to crack down on Palestinian unrest ahead of a visit by US President Bill Clinton originally intended as a celebration of the peace process.

Mr Netanyahu said it was his duty "to activate the Israeli army and security elements against this trouble in the firmest way possible". He added he would refuse to hand over more land to the Palestinians until the violence ended.

Israeli troops and Palestinian demonstrators have clashed repeatedly over several days as Palestinians stepped up their demand for the release of political prisoners. Israel released 250 prisoners last month *but 150 were common criminals.*

Dennis Ross, US Middle East envoy, yesterday conceded the prisoner issue was "emotional" and "sensitive".

"Clearly, those who have committed themselves to peace and are against terror and violence, *for them, the issue of prisoners* is very important... we understand it," he said. However, Mr Netanyahu vowed not to free "murderers with blood on their hands".

Mr Ross has tried to quell the unrest, bring Israelis and Palestinians back to the negotiating table and salvage the Wye Plantation accord before Mr Clinton's arrival.

Mr Clinton has invested enormous time and energy in forging the accord, signed in Washington in October between Mr Netanyahu and Yassir Arafat, president of the Palestinian Authority.

His visit next week to the Israeli cities of Jerusalem and Ashkelon, and the Palestinian cities of Gaza *and Bethlehem, was* intended to push the peace process forward as much as celebrate what had been achieved since October.

Instead, said US officials, Mr Clinton will have to use all his skills to revive a peace process bitterly opposed by Mr Netanyahu's right-wing partners in his coalition as well as Jewish settlers.

Several government ministers have already said they would prefer Mr Clinton to stay away, while posters in Jerusalem showed a picture of the president wearing a traditional Arab head-dress with the words "I am a Palestinian" splashed above.

The cool reception for one of Israel's closest *allies reflects growing* concern by the Netanyahu government that Mr Clinton's visit will boost Mr Arafat's quest for statehood. It is the first time a US president will visit the Palestinian autonomous areas.

Mr Arafat, meanwhile, yesterday convened members of the Palestine Central Council, a mini-parliament. As part of the Wye accord, they must reaffirm the nullification of those clauses in the Palestinian National Charter that had called for Israel's destruction.

Chicago Board of Trade ousts chairman in reforms dispute

Nikki Tait in Chicago

Members of the Chicago Board of Trade, the world's largest futures exchange, yesterday ousted the incumbent chairman in a dramatic upset following a struggle over moves to reform the exchange.

The victory of David Brennan, a 41-year-old soyabean trader, came after a nail-biting finish to an election campaign in which the outgoing chairman, Pat Arbor, described his successor as a "flat earther".

The vote, which Mr Brennan won by 608 to 589, reflected the wave of concern which has swept over the Chicago trading community this year as traditional "open outcry" exchanges worldwide find themselves challenged by cheaper electronic trading alternatives.

Pressure to cut trading costs, partly through a faster move towards electronic trading, has come from the exchanges' biggest customers, notably the large financial services firms. This trend has already engulfed European exchanges.

But smaller independent traders worried about damage to their livelihoods argued that the quality of markets would diminish if the liquidity which they provide through open outcry was lost.

Seat prices have virtually halved at CBOT, although the exchange will achieve record volumes this year.

Mr Brennan has urged speedier deployment of electronic systems to bring orders to the trading pits. But he wants to retain the open outcry *system for executing trades.*

"Going forward, we have to transform ourselves into an electronic open outcry exchange," he told members last month.

In its big treasury bond complex, the CBOT has already introduced "side-by-side" trading – ectronic alongside open-outcry – a solution which some traders see as a compromise.

Mr Arbor, in office for six years, had staked out a course which would have seen the CBOT pool back office clearing systems with those of the Chicago Mercantile Exchange, its big local rival, a cost-saving measure strongly urged by larger firms. He also negotiated an alliance with Eurex, the big German-Swiss exchange, for joint development *of a new electronic trading system* on which both exchanges would post products, arguing that this would be increasingly valuable as monetary union boosted Europe's capital markets.

But both schemes met membership criticism, and the common clearing plan was voted down. The Eurex plan has yet to be put to a membership vote.

Going into the election, many traders still thought Mr Arbor's support among the larger trading firms would carry the day.

Yesterday, the new chairman - whose grandfather, father and two brothers are also CBOT members - issued a formal statement, promising an "open-door" policy. "We will move vigorously on many fronts... And true to my pledge in the campaign, I will keep you, the members, fully informed," he said.

Observer, Page 13
Great expectations, Page 32

CONTENTS

Ulster politicians David Trimble (left) and John Hume lighting a peace flame before receiving the Nobel Peace Prize in Oslo. Page 9

FT.com
FINANCIAL TIMES

Directory of online services via FT Electronic Publishing

FT.com: the Financial Times web site; online news, comment and analysis.
http://www.FT.com
The Archive: online archive of back issues of the newspaper since July 1996.
http://www.archive.FT.com
Newspaper subscriptions: information, offers and online ordering.
http://www.ft.com/newspaper/subscribe.htm
FT Annual Reports Service: online ordering of annual or interim reports and accounts of 1200 UK plcs
http://www.ft.com/newspaper/222a.htm
FT Group: directory
http://www.ft.com/aboutft/family.htm
Cityline: how to get share prices and market reports by telephone and faxback.
http://www.ft.com/newspaper/2178.htm
Surveys: details of forthcoming editorial surveys.
http://www.ft.com/newspaper/2368.htm

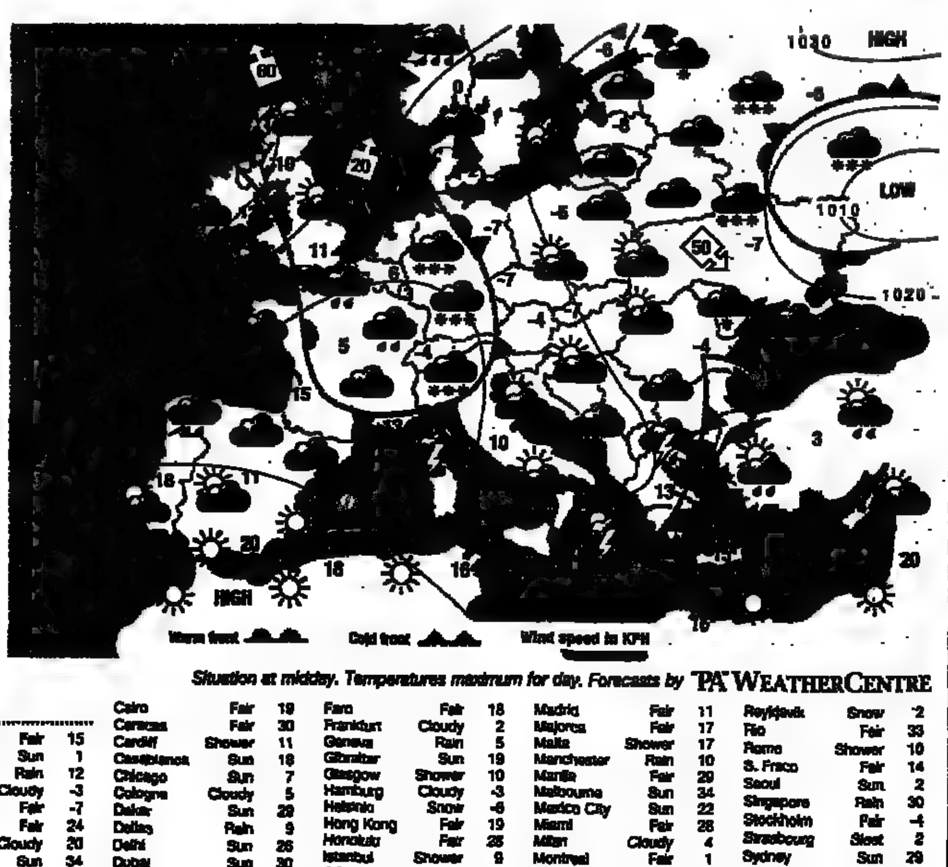
FT WEATHER GUIDE

Europe today

A blustery but mild airstream is becoming established over western Europe and this will bring snow for a time to western Germany through to the Alps. However, this will gradually turn to rain as the milder air moves in from the Atlantic. The Mediterranean will be unsettled with heavy thundery showers, but western and eastern areas will be fine and sunny. Scandinavia and eastern Europe will continue cold with snow over western Russia.

Five-day forecast

Milder, breezy conditions will continue to push into western and central Europe and Scandinavia through the weekend. This will continue on into eastern Europe by early next week, but where the mild air meets the colder air in the east, extensive snowfalls are expected, which will be followed by a widespread thaw.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	29
Accra	Sun	32
Algiers	Fair	18
Amsterdam	Drzzl	4
Athens	Shower	13
Atlanta	Cloudy	14
B. Aires	Sun	28
B.ham	Shower	10
Bangkok	Cloudy	31
Barcelona	Fair	15
Beijing	Sun	1
Belfast	Rain	12
Belgrade	Cloudy	-3
Berlin	Fair	-7
Bermuda	Fair	24
Bogota	Cloudy	20
Bombay	Sun	34
Brussels	Rain	6
Budapest	Fair	-7
C.hagen	Cloudy	-2
Cairo	Fair	19
Caracas	Fair	30
Cardiff	Shower	11
Casablanca	Sun	18
Chicago	Sun	7
Cologne	Cloudy	5
Dakar	Sun	29
Dallas	Rain	9
Delhi	Sun	26
Dubai	Sun	30
Dublin	Rain	12
Dubrovnik	Fair	8
Edinburgh	Cloudy	9
Faro	Fair	18
Frankfurt	Cloudy	2
Geneva	Rain	5
Gibraltar	Sun	19
Glasgow	Shower	10
Hamburg	Cloudy	-3
Helsinki	Snow	-6
Hong Kong	Fair	19
Honolulu	Fair	28
Istanbul	Shower	9
Jakarta	Fair	32
Jersey	Shower	12
Johannesburg	Fair	26
Karachi	Sun	30
Kuwait	Sun	26
L. Angeles	Sun	22
Las Palmas	Fair	21
Lima	Fair	23
Lisbon	Fair	18
London	Cloudy	11
Lux.bourg	Drzzl	3
Lyon	Cloudy	6
Madeira	Fair	20
Madrid	Fair	11
Majorca	Fair	17
Malta	Shower	17
Manchester	Rain	10
Manila	Fair	29
Melbourne	Sun	34
Mexico City	Sun	22
Miami	Fair	28
Milan	Cloudy	4
Montreal	Fair	1
Moscow	Snow	-6
Munich	Snow	-1
Nairobi	Fair	26
Naples	Shower	13
Nassau	Fair	29
New York	Fair	9
Nice	Fair	13
Nicosia	Fair	18
Oslo	Cloudy	0
Paris	Shower	10
Perth	Fair	27
Prague	Fair	-7
Rangoon	Sun	33
Reykjavik	Snow	-2
Rio	Fair	33
Rome	Shower	10
S. Frsco	Fair	14
Seoul	Sun	2
Singapore	Rain	30
Stockholm	Fair	-4
Strasbourg	Sleet	2
Sydney	Sun	29
Tangier	Fair	18
Tel Aviv	Sun	20
Tokyo	Cloudy	10
Toronto	Sun	3
Vancouver	Rain	8
Venice	Fair	6
Vienna	Snow	-4
Warsaw	Fair	-7
Washington	Fair	11
Wellington	Fair	16
Winnipeg	Fair	1
Zurich	Rain	3

FINANCIAL TIMES

COMPANIES & MARKETS

© THE FINANCIAL TIMES LIMITED 1998 FRIDAY DECEMBER 11 1998 Week 50

INSIDE

Seagram to fold PFE into Universal
European hopes of PolyGram Filmed Entertainment (PFE), Europe's largest film group, remaining independent ended when Seagram, the Canadian group that bought PFE, announced it was to be folded into Universal Pictures, its Hollywood movie studio. Page 17

Share euphoria greets Chávez win

Once again Venezuela's stock exchange has surprised the world with its tropical temperament. Instead of the expected plunge following the victory of populist Hugo Chávez (left) in Sunday's presidential elections, the Caracas stock exchange surged 41.6 per cent in two days. Tuesday's 22.2 per cent jump was the largest single-day increase since February 1994 and Wednesday saw a six-month high. Page 42

Lessons of Ciba/Clariant deal failure
The sudden collapse of the merger of Clariant and Ciba, the Swiss speciality chemicals groups, has raised doubts about whether big really is beautiful in some industries and whether the hectic pace of consolidation in some of the world's biggest industries deserves to be replicated in related industries. Page 18

Japan plans first 30-year bond
The Japanese government is drawing up plans to issue a 30-year bond for the first time in a new bid to calm market concern about the country's spiralling national debt. Page 30

Energy groups circle NZ privatisation
The allure of one of the world's least regulated utility sectors is expected to motivate at least half-a-dozen international energy concerns to bid for control of Contact Energy, the New Zealand energy company, early next year. Page 16

Uranium producers suffer in glut
Western uranium producers are shutting down facilities and reducing staff as they struggle to cope with a glut, low spot market prices and an uncertain market outlook. Page 32

Korea sells more of steelmaker
South Korea has begun the final phase of the privatisation of Pohong Iron & Steel (Posco), the world's second largest steelmaker, by selling a 5.1 per cent stake in a $300m offer. Page 18

Property, politics and the plough
The price of farmland has historically depended mostly upon the government subsidies it attracts. But with the US winding down aid and the European Union planning to scale back the Common Agricultural Policy after 2000, underlying farmland prices are likely to become more sensitive to the market values of the commodities they produce. Property, Page 18

COMPANIES IN THIS ISSUE

CROSSWORD, Page 32

MARKET STATISTICS

Ericsson in profits warning

Swedish telecoms group may shed up to 10,000 jobs

By Greg McIvor in Stockholm

Shares in Ericsson plunged 16 per cent yesterday after the Swedish telecommunications group issued a profits warning and announced heavy job cuts.

The announcement sent fresh tremors through the telecoms industry following profit warnings in September by Alcatel of France, Canada's Nortel and Philips, the Dutch consumer electronics group.

It raised concerns about the state of the booming worldwide mobile telephone market, prompting falls in shares in Motorola of the US and Nokia of Finland, the leading suppliers to the sector along with Ericsson.

Ericsson said shrinking margins in its mobile phones business, coupled with general economic uncertainty, meant fourth-quarter profits would fall 15-20 per cent short of market expectations. Full-year sales would also be below forecast levels.

Analysts had been expecting Ericsson to report fourth-quarter profits of SKr7.5bn ($930m).

Ericsson's shares tumbled SKr38.50 to SKr199. Shares in Nokia dropped FM15 to FM595, while Alcatel fell 7 per cent to FFr685. Motorola shares fell $1⅛, or more than 2 per cent, to $58⅝ in early trading.

Sven-Christer Nilsson, Ericsson chief executive, said a far-reaching rationalisation package – likely to entail about 10,000 job losses or almost 10 per cent of the workforce – would be unveiled in January.

He conceded that the global financial crisis was hitting some of the company's operations. The main impact was felt in its former Infocom unit, which includes Ericsson's traditional fixed-line telephone switching business.

Infocom, now part of a new Public Networks division, has failed to respond to intensive restructuring and is expected to remain loss-making this year.

Ericsson, the world's third-largest supplier of cellular phones behind Nokia and Motorola, also said handset margins were being squeezed by a shift in demand towards cheaper phones.

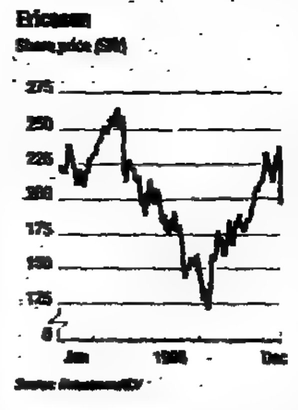
It said low-specification phones were preferred by the rapidly growing market for pre-paid mobile services. The trend was particularly pronounced in western Europe, where one-third of handsets sold were so-called "entry phones".

While Nokia has maintained stellar profits growth this year by launching new models, Ericsson has been criticised for slowness in introducing new handsets.

Its vulnerability to price erosion has been compounded by a shortening of handset life-cycles that is forcing manufacturers to develop new products more quickly.

Senior Ericsson executives said, however, that there were no plans to bring forward the launch of a new cellphone range, earmarked to take place early next year.

Investors received an insight into Ericsson's handset problems in July, when the company said prices had fallen by up to 25 per cent year-on-year.



Lex, Page 14
World stocks, Page 42

Pru sells health business to Aetna for $1bn

By John Authers in New York

Prudential Insurance of America, the largest US life insurer, yesterday took a significant strategic step on its path to de-mutualising, announcing it had sold its healthcare business to Aetna for $1bn.

The move followed intense efforts by the Pru to rationalise its health business, which was viewed by analysts as an important obstacle to the company's ambition to seek a market listing.

Restructuring of the business in the last two years involved reducing the number of healthcare service centres from 44 to four.

The deal also establishes Aetna as the largest managed care provider in the US, following a big strategic shift into healthcare businesses in the last two years, which has been accompanied by disposals of its property and casualty, and individual life insurance businesses.

It bought US Healthcare for $8.9bn two years ago, and NYLCare, the healthcare business of New York Life, for $1.05bn earlier this year.

Arthur Ryan, the Pru's chief executive, said: "We are taking advantage of the consolidation trend in the healthcare industry to divest Prudential of a valuable but non-core asset. "Exiting the health care market will allow us to concentrate additional capital and resources on insurance and financial services."

He said the Pru intended to accelerate its growth in these businesses "both in the US and internationally".

The Pru - which is unrelated to the quoted UK life company of the same name - said that healthcare was no longer an "insurance" business, and that the opportunities for "cross-selling" other Prudential products were limited. It needed a more focused strategy before it could proceed with an initial public offering.

However, it emphasised that it was still a long way from going to the market. It still needs to obtain consent from regulatory authorities in New Jersey, where it is based, and an IPO is unlikely until late in 2000.

This means the Pru has opted for a much slower timetable than Metropolitan Life, the second largest US life group, which announced its plans to demutualise last month, and aims to be ready to go to market by the end of next year.

The Prudential also considered a spin-off for its health business, but was deterred by the sharp decline in healthcare companies' share prices over the last two years.

Aetna said it obtained a good price on the deal. The $1bn price values the Prudential business at about $200 per patient - one of the standard yardsticks used for valuation in the managed care industry. It paid roughly $600 per patient when it acquired NYLCare earlier this year.

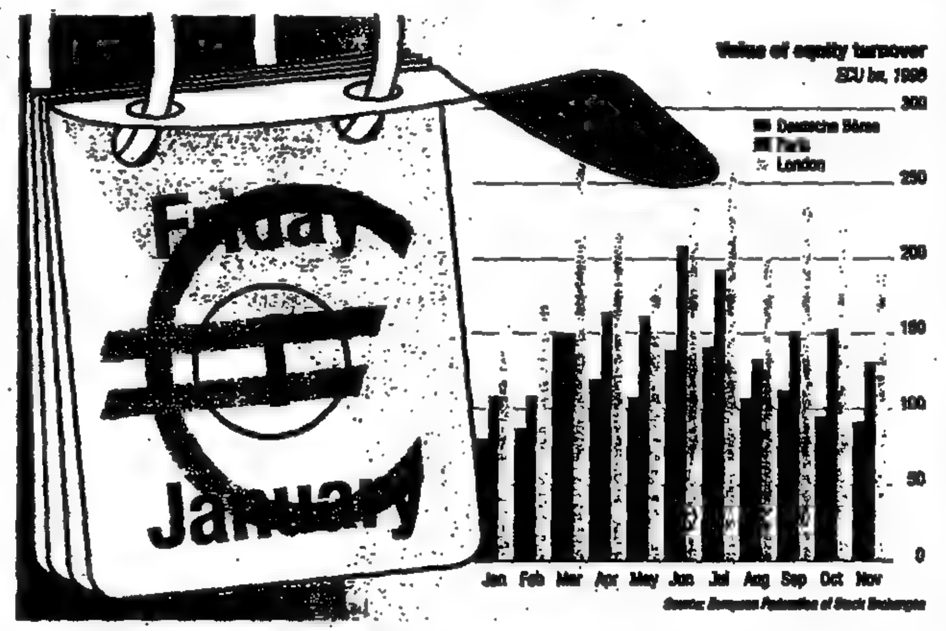
Aetna's share price fell in early trading, although it did not fare significantly worse than the market as a whole. By mid-session it was down $1⅛ at $79⅛.

Aetna's gamble, Page 18

Funds wind down share trading

Switch to the euro leads to fears over price fluctuations

By Jane Martinson, Investment Correspondent



Source: European Federation of Stock Exchanges

Fund managers are set to wind down non-essential buying and selling of European shares and bonds this weekend, before the introduction of the European single currency in 11 countries on January 1.

The clampdown, designed to avoid the risk of administrative or technical failure over the changeover to the euro, is causing concern that the resulting fall in liquidity will lead to huge price swings. The uncertainty is likely to exacerbate typically low trading volumes at this time of year.

Legal & General, Europe's second-largest index tracking asset manager, which invests £55bn ($91.5bn) in Europe, said yesterday that all dealing in UK and continental European equities and bonds would be "kept to a minimum" after this weekend. This would leave two weeks to settle most trades before the changeover to the new system.

L&G, which has also decided not to invest any new client money in Europe over the next two weeks, is unusual in specifically including European countries outside the 11 Euroland members, such as the UK, in its trading edict.

The scope for administrative error is behind the decision to settle as many trades as possible before the year-end. Settlement times, during which a trade is officially recorded, vary across European markets. In most markets it should be possible to trade until December 22 and settle in domestic currencies before the year-end, but the potential for problems is making most fund managers extremely cautious.

Richard Foulkes, head of the European investment team at Schroder Investment Management, the UK's second-largest pension fund manager, said: "Although we've all done checks and made sure we're ready, nobody in their right minds would want to be exposed if anything goes wrong."

Barclays Global Investors, Lombard Odier, Schroders and Mercury Asset Management all said yesterday that they were aiming to have settled as many trades as possible before the year-end. All stressed that they would continue to trade when necessary in the interests of clients.

BGI, Europe's largest index-tracker, has advised clients that they would be "running risks" if they made large trades between the middle of December and the middle of January.

Schroder is to curb trading in the 11 Euroland markets in the last two weeks of the year.

L&G said it would "respond to any significant market changes or corporate activity" but that it expected the UK to suffer from illiquidity.

Several fund managers questioned the rationale of any company planning large transactions in the next two weeks. One deal that could cause extreme volatility is the BP/Amoco oil merger, which is expected to be completed just before Christmas.

BP's weighting in the FTSE 100 is expected to increase from about 5 per cent to an estimated 8 per cent as a result of the deal. In an illiquid market the expected buying pressure from large index trackers could cause huge price swings.

Several UK managers pointed to the huge swings in individual prices last year that were caused by illiquidity on the London Stock Exchange after it introduced a new electronic system.

Standard Chartered is favourite to buy UBS arm

By Clay Harris in London

Standard Chartered, the UK-based international bank, is the leading contender to buy the global trade finance business put up for sale by UBS.

The Swiss bank has made Standard Chartered the preferred bidder for the operation, which is expected to fetch more than SFr1bn ($735m).

UBS confirmed this week that a wide-ranging review of Warburg Dillon Read, its investment banking subsidiary, had led to a decision to sell the trade finance business.

Unlike UBS, Standard Chartered views trade finance as a core business and one ripe for expansion.

The UBS operation's strength within Europe would complement Standard Chartered's focus on Asia, Africa and Latin America.

Rana Talwar, chief executive, said in October that Standard Chartered planned to make selective acquisitions of "local institutions or portfolios".

The two banks have agreed on the method of valuing the UBS business. Standard Chartered is now undertaking its due diligence led by Christopher Castleman, a director whose responsibilities include special projects such as takeovers.

Both banks refused to comment yesterday.

Emerging markets account for less than half of UBS's SFr10bn in outstanding trade finance lines. Of this, Latin America, including Mexico, represents by far the biggest portion with SFr4.1bn.

By comparison, exposure to Russia is only SFr185m, to Indonesia SFr69m and to other Tiger countries SFr216m.

Trade finance in emerging markets, however, is "quite capital consuming" for UBS, according to James Hyde, European banking analyst at Merrill Lynch.

Swiss regulators have more stringent rules on such exposure than their counterparts elsewhere, not differentiating between trade finance and other more risky loans.

This means UBS must set aside more capital than a bank in another country would.

Shares in CBS unit soar after IPO success

By Christopher Parkes in Los Angeles

Shares in Infinity Broadcasting soared 18 per cent early yesterday as investors tuned in to the second big initial public offering of the year from the US media industry.

Coming within weeks of the success of News Corporation's offering of stock in its Fox Entertainment Group, the enthusiastic response to the spin-off from CBS may encourage similar moves, with Sony's film and television arm a favoured prospect.

The CBS sale of 17 per cent of its radio and outdoor advertising arm raised $2.87bn on completion late on Wednesday, making it the third largest IPO on record and valuing Infinity at more than $17bn.

With 140m units sold – 5m more than expected – at $20.50 apiece, Infinity shares were the most heavily traded stocks in the morning session. After opening at $24⅛, the stock was selling for $23⅞ by midday, up almost 16 per cent on the issue price.

As with the Fox offering, which raised $2.8bn last month, investors saw the CBS deal as a chance to buy into its highly rated radio division unencumbered by its struggling television network.

Fox's US film and television interests were also seen as an attractive selection of assets from News Corp's sprawl of international operations.

Infinity, the media group built by Mel Karmazin, who is now chairman-elect of the CBS group, owns 161 radio stations and TDI Worldwide, one of the biggest US billboard concerns.

It is considered especially attractive because of its stations' concentration in the nation's biggest markets and their 11 per cent share of all US radio advertising revenues.

Its assets include rights to the nationally syndicated morning talk shows of Don Imus and Howard Stern, the so-called shock-jock of US radio.

Last year the Infinity operations earned $161m on revenues of $1.87bn.

Although the pending merger between Chancellor Media and Capstar Broadcasting will relegate Infinity to second place in revenue terms, the emergence of big national groups will increase the pressure on smaller companies to offer themselves for sale, and provide opportunities for Infinity to grow further by acquisition.

Mr Karmazin joined CBS – then Westinghouse Electric – in 1996 when CBS bought Infinity for less than $4bn.

Both IPOs will raise interest in the possibility that Sony of Japan may follow suit with its Sony Pictures Entertainment division, which is recovering after years of financial crisis and management turmoil.

The reshaping of SPE continued this week with the appointment on Wednesday of Howard Stringer as chairman of all Sony's US operations and a rearrangement of management roles at SPE under which the film and music chiefs will report directly to Mr Stringer.

Brierley to sell John Fairfax holding for A$600m gain

By Gwen Robinson in Sydney and Terry Hall in New Zealand

Brierley Investments, the New Zealand-based investment company, said yesterday it would sell its 24.4 per cent stake in John Fairfax Holdings, Australia's second largest publishing company and owner of several of the country's largest newspapers.

The move fuelled speculation over the future of Fairfax and of Australian media ownership laws, which have restricted cross-media holdings.

BIL said it would sell its holding in two tranches at A$3.10 a share, for a gain of about A$600m (US$370m) after costs. It would place a 14.4 per cent stake on the market for institutional and retail investors. The remaining 10 per cent would be bought back by Fairfax, also at $3.10 a share.

BIL, the largest shareholder in Fairfax, held the stake through its Australia-listed unit, Australian Consolidated Investments.

Fairfax last night said the buy-back would cost about A$250m and would be funded from available cash and bank facilities. It would be subject to regulatory and shareholder approvals and to BIL's sale of its remaining 14.4 per cent stake.

A valuation would be prepared by PricewaterhouseCoopers, which would be retained as an independent consultant, and a shareholders' meeting would be held in February, Fairfax said.

Fairfax shares rose 5 cents to A$3.31 on rumours of the BIL sale and Fairfax buy-back, although the announcement was made after the close of trade.

The Fairfax group has recently sold some magazine and television interests, and last week launched a A$500m combined medium-term note and promissory note programme, leading to speculation about an acquisition or investment.

BIL said the sale completed its asset disposal programme and that it would restore the group to financial health.

Selwyn Cushing, BIL chairman, said that since June 30 it had received capital returns and special dividends totalling about NZ$3bn (US$1bn). After settlement of the sale, BIL's debt would be half that of six months ago.

The move came just months after it denied any interest in selling Fairfax. BIL, which purchased its Fairfax stake from 1996 in stages from the Hollinger group of Conrad Black, the Canadian media magnate, had indicated its Fairfax stake was a core asset.

Australian media analysts and investors, however, said the main interest in BIL's sale lay in Fairfax's plans and the intentions of Kerry Packer, who controls Publishing and Broadcasting, a rival media company, through his 45 per cent stake. After BIL's exit, the single largest shareholder in Fairfax would be FXF Trust, with just under 15 per cent.

The trust was created last year as a vehicle for the Fairfax stake previously held by Mr Packer's companies and raised concerns that it was a device to sidestep media ownership rules.

The trust, which is controlled by PBL's shareholders, gives Mr Packer's private Consolidated Press Holdings (CPH) an influential foothold in Fairfax. Brian Powers, PBL former executive chairman and former chief executive of CPH, was made chairman of Fairfax this year, after leaving Mr Packer's group and joining the Fairfax board as a representative of FXF Trust.

Mr Packer is understood to have expressed interest in acquiring part of the Fairfax group, particularly its lucrative classified advertising operations. Media ownership rules, however, prevent him from directly purchasing Fairfax shares. The conservative government has indicated it may consider reviewing the restrictions.

Dickson Concepts faces loss as recession bites

By Louise Lucas in Hong Kong

Dickson Concepts, the Hong Kong-based luxury retailer, is set for an unprecedented loss this year after its interim loss of HK$290.76m (US$37.5m) for the six months to September 30. The group is paying no dividend.

The loss, deepened by provisions of HK$156.1m, compares with a profit of HK$196.33m at the halfway stage last year, and reflects low consumer confidence in Asia. Dickson Poon, chairman, held out little prospects of any turnround in the second half.

"Given the unprecedented slump in world markets, the group expects to report a loss for the full year for the first time in its history. It is the group's belief that the retail trade in Asia has unfortunately entered a period where professionalism has become secondary to financial capability.

"The only retailers who will be able to survive will be those who have the financial resources to withstand a prolonged period of losses until such time as the market consolidates and order is restored," he said.

Luxury goods retailers have been hammered by declining wealth in Asia. Sentiment remains weak, with economies in recession and unemployment rising.

In Hong Kong, retail sales plunged 22 per cent in value terms year-on-year in September, with department stores and luxury goods taking the biggest hit. This has taken a toll on the territory's other retailers.

This month, Lane Crawford, the retail arm of Wheelock, reported an interim loss of HK$6.8m for its first half, while Joyce Boutique Holdings sought a HK$34.32m cash injection through the sale of a 20 per cent stake to Holding di Partecipazioni Industriali, the Italian fashion, textiles and publishing group.

Dickson Concepts generally enjoys a higher regard in the investment community, partly owing to management – which is credited with turning round Harvey Nichols – but also as a result of its greater geographic diversity, with the London department store and ST Dupont in France.

Its failure to pull off a bid for Barney's, the US department store, was seen as a setback to expansion plans, but other US deals have emerged and Mr Poon has not ruled out a further bid for Barney's.

Conspicuous consumption: Dickson is credited with turning round its subsidiary Harvey Nichols

Expansion is also continuing in more depressed markets. In Hong Kong, flagship stores of 5,000 sq ft each will be opened in February, selling Polo/Ralph Lauren and Brooks Brothers' clothing.

Dickson Concepts' turnover in the period fell 4.9 per cent to HK$2.45bn.

The interim loss per share slumped to 50.2 cents before the exceptional item, or 108.4 cents after, against earnings per share of 73.2 cents last time. Last year the interim dividend was 30 cents.

NZ power sale may spark global interest

Contact Energy's freedom from regulation is attractive, says **Mark Reynolds**

The allure of one of the *world's most deregulated* utility sectors is expected to motivate at least half-a-dozen international energy concerns to bid for control of the New Zealand energy company Contact Energy when it is offered for sale early next year.

The prize for the winning bidder will not simply be an investment in a financially robust energy generation and trading business. The main reward is Contact's prime position in the nation's unobstructed electricity market.

"It's a unique opportunity for overseas companies to get a taste of how their home markets might be in the future," said Paul Richardson, energy analyst in Auckland with brokerage Warburg Dillon Read.

Contact is being sold by the New Zealand government in a mixture of a trade sale of a 40 per cent stake *and an initial public offering* of the remaining 60 per cent. There are unlikely to be any foreign ownership ceilings on the investment.

By world standards, Contact is a small company. It is expected to sell for a little more than NZ$1.5bn, with a return on average shareholders' funds forecast to be close to 10 per cent before interest and tax. But Contact's real value to international investors is the breadth of its operations.

It has capacity to generate about 35,000 gigawatts of electricity, or nearly a third of New Zealand's total capacity, from hydro, thermal and gas-powered stations.

It also sells electricity into the wholesale spot market, and hedges the risk through contracts with its customers, including small consumers and large industrial users. Following changes to local energy laws in August, Con*tact is able to operate a* retail electricity-trading operation.

In the three months since the sector was deregulated, it has built up a base of more than 300,000 retail power customers. The retail business represents nearly a fifth of New Zealand's power consumers, while the gas retail operations are dominant, with an 80 per cent market share.

Contact also owns about two-fifths of the output of the nation's largest gas field and has a foothold in the Australian electricity sector, with stakes in a gas-fired plant in Queensland and a hydro facility in Victoria.

But the big appeal for analysts is Contact's relative freedom from regulation.

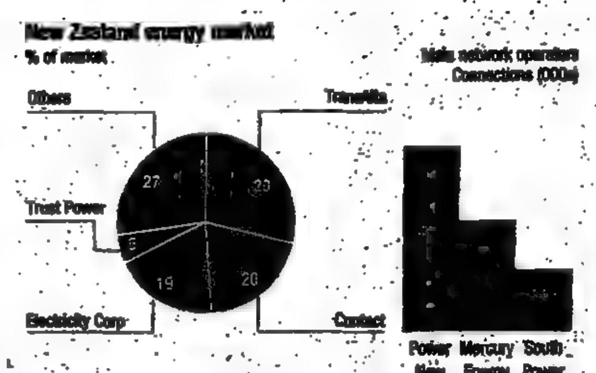
Prices, both in monopoly power network operations and in competitive trading and generation activities, are controlled by a so-called *light-handed regulation.* Market pressures are trusted to keep prices fair in the trading and generation activities, while charges for the use of network or line assets are restricted by caps on return on capital rules.

The regulatory changes introduced in August make it illegal for a company that owns 10 per cent of a network operation to own a similar stake in retail trading or generation activities, but otherwise the market is unencumbered.

Max Bradford, minister responsible for energy policy, says the aim is to keep the industry transparent and competitive. He says that while most countries use forms of heavy-handed regulation to prevent power companies cross-subsidising their trading business with monopoly line rentals, ownership separation has proved to be a simpler and more effective mechanism.

The 10 per cent threshold caused most electricity companies to sell one side of their business, and that has led to consolidation across the two sectors.

"We think there are some good opportunities to bring some economies of scale to the business and add value to the industry through providing services to other parts of the industry," says



Bob Green, president of Kansas City base electricity and gas group Utilicorp. His company owns nearly three-quarters of Auckland-based Power New Zealand, which owns a network business with more than 500,000 customers, or about a quarter of the population of New Zealand's North Island.

Mr Green sees opportunities for Utilicorp to take some of the network management tools it is developing in New Zealand and apply them to its energy business in North America.

Similarly, Derek Johnson, chairman of the New Zealand associate of Canadian-based TransAlta, sees opportunities for his company to teach its North American parent some new tricks.

He says that for retailing, for example, there is huge scope to bundle other services into their operations.

These might be product discounts or even financial services along with energy contracts to consumers. TransAlta can trial such innovations in New Zealand, and then apply them to a larger market elsewhere.

Such potential helps explain why brokers are hinting that the cornerstone shareholder in Contact might emerge from outside the energy industry, with Australian Mutual Provident, the fund manager, already rumoured to be putting together a bid.

For their part, executives at Contact Energy are enthusiastic about the prospect of getting a new owner.

Paul Anthony, chief executive and a former executive with PowerGen of the UK during its privatisation, says the government's exit from the company as an opportunity for Contact to look at areas that the state might "traditionally have been shy of", including fund management and financial services, or further moves overseas.

Founding groups quit AsiaSat

By Louise Lucas

Two founding shareholders are bailing out of Asia Satellite Telecommunications, the Hong Kong satellite consortium, clearing the way for a HK$2.88bn (US$377m) cross-border restructuring.

Société Européenne des Satellites, the Luxembourg-based satellite company, is paying HK$2.56bn to acquire shares held by Cable & Wireless, the UK telecoms carrier, and Hutchison Whampoa, the Hong Kong-based conglomerate.

The third founding shareholder, China International Trust and Investment Corporation (Citic), Beijing's main investment agency, will increase its holding, for a smaller price. It is paying HK$13.20 a share, compared with the HK$19.25 paid by SES. The companies said the difference recognises Citic's contribution to the successful development of AsiaSat's business.

The blended price paid, HK$18.33 a share, represents a 49 per cent premium to Wednesday's closing price of HK$12.20.

After the deal, which is expected to be completed on January 15, Citic will hold about 34.5 per cent of AsiaSat and SES will have a marginally smaller stake but equal voting rights. The public share remains unchanged at 31.05 per cent.

Cable & Wireless, which makes about US$236m from the sale of its stake in AsiaSat, will use the funds to pay debts. Rod Olsen, executive director Asia Pacific, said the disposal would allow the group to focus on core business. Hutchison Whampoa, which receives US$106m, will reinvest the proceeds in core businesses.

For AsiaSat, the arrival of a big shareholder in the same business will give it the technical expertise to launch new growth, said Peter Jackson, chief executive officer.

"This partnership is a turning point for AsiaSat," he said. "It's a changing of the guard: two initial founding shareholders are making way for a new strategic partner."

Romain Bausch, director general and chairman of the management committee at SES, said the deal was the group's first investment in Asia and followed its initial public offering in July.

NEWS DIGEST

STEEL

Posco privatisation enters final phase with ADR offer

South Korea has began the final phase of the privatisation of Pohong Iron & Steel (Posco), the world's second largest steelmaker, by selling a 5.1 per cent stake in a $300m *offer of American Depository Receipts. The government* plans to sell its remaining stake of 21.6 per cent, held by the state-run Korea Development Bank, later.

The Posco share offer was the largest amount raised abroad by a Korean company since the nation sought a $58bn bail-out from the International Monetary Fund a year ago.

The issue was priced at a 26 per cent premium to Posco's closing stock price Tuesday of Won59,100.

"The offering was increased in size to $300m from an initial offer of $250m in response to strong investor interest, and Korea hopes the success of the Posco issue will improve chances of the privatisation of other state-run companies, including Korea Telecom.

Merrill Lynch, Salomon Smith Barney and Dongwon Securities were lead-managers on the issue.
John Burton, Seoul

BANKS

Sinopac in talks with BoA

Bank Sinopac and Bank of America are to hold preliminary talks next week about a possible purchase of the US bank's two Taiwan branch offices and retail banking unit.

A Sinopac official, who declined to be identified, said the US bank's operations were a good fit but it had too many staff. Sinopac employs 1,200, while 850 are employed by Bank of America's retail banking operations.

The talks, scheduled for December 17 and 18, will consider the taking over of the business operations. The subject of the transfer of personnel will be discussed as a separate issue, the official said.

Bank of America plans to shed its retail banking operations in India, Singapore and Taiwan, while concentrating on its Hong Kong and Macau operations as a part of the worldwide restructuring following the merger between Bank of America and NationsBank this year.

Bank Sinopac was established in 1992 as a private bank and is aggressively expanding its operations.

It bought the Los Angeles-based Far East National Bank in 1997 and was close to purchasing a majority stake in Mexico's Banco Industrial this year before the application was rejected by the Mexican government. **AP-DJ, Taipei**

CREDIT RATING

Moody's in Indian tie-up

Moody's Investors Service, the international rating agency, has announced a joint venture with ICRA, one of the two leading credit rating agencies in India. The tie-up is the latest in a series of ventures between Moody's and domestic rating agencies around the world. Standard & Poor's, Moody's chief rival, has also stepped up its presence in markets around the world.

Moody's said the joint venture would involve an exchange of "global and local market expertise, credit rating reports, selective joint research and training of ICRA credit rating analysts". Although India has a relatively small corporate bond market, it is expected to grow in the next few years. This will stimulate demand for more rating analysis.

In addition, India is expected to make its sovereign debut in the international bond markets at some stage in the next two years. Rated Indian corporations, such as Reliance Industries, have already tapped debt from the international bond markets.

No financial details were disclosed about the joint venture. **Edward Luce, Capital Markets Editor**

ENTERTAINMENT EXECUTIVES EXPECTED TO QUIT AS UNIVERSAL ABSORBS FILMS GROUP

PFE move a bitter blow for European films

By Alice Rawsthorn

Hopes of PolyGram Filmed Entertainment (PFE), Europe's largest film group, remaining independent evaporated yesterday when Seagram announced that it was to be folded into Universal Pictures, its Hollywood movie studio.

The future of PFE, which has backed such hits as *Four Weddings And A Funeral* and *Trainspotting*, has been clouded by uncertainty since it was put up for sale this summer when Seagram, the Canadian entertainment and drinks company, mounted an $11bn bid for the PolyGram group.

Seagram concluded that deal yesterday, and has now started to merge PolyGram's music interests with its Universal Music division.

Having failed to find a buyer for PFE, which it had hoped to sell for $750m, Seagram has agreed to fold parts of it into Universal Pictures, which disclosed earlier this week that it would make a $65m second-quarter loss after a series of box office disappointments.

PFE's takeover by a Hollywood studio is a bitter blow to the European film sector. PolyGram's strategy of investing $1.2m in film production and distribution since 1991 was the main catalyst for the European industry's recent revival.

Michael Kuhn, PFE's British-born chairman and the architect of its expansion, is now expected to leave. However, Universal is understood to be keen to persuade Stewart Till, president of PFE International, to stay.

It also hopes to retain Eric Fellner and Tim Bevan, co-chairmen and co-founders of Working Title, the London-based production company.

Universal, which reshuffled its senior management last month following its run of flops, declined to specify which PFE assets would be retained.

The areas in which it is understood to be most interested include the film distribution operation outside the US, run by Mr Till, and various film and video companies.

Other parts of PFE are likely to be closed, possibly including its US film distribution network.

Seagram hopes soon to conclude the sale of the old ITC television library, which owns rights to *Thunderbirds* and *The Prisoner*, to Carlton Communications, the UK media group. It has already sold PFE's other library interests to MGM/UA.

Having completed its $11bn deal, Seagram is merging PolyGram's music interests with Universal Music. This process will trigger the loss of 3,000 jobs – including 2,000 in North America – from its 15,500-strong workforce.

Doug Morris, chairman of the new Universal Music Group, now the world's biggest music business, said that the merger would yield annual savings of around $300m, at the top end of Seagram's original forecast.

Mr Morris said that Roger Ames, chairman of PolyGram Music, was expected to leave. David Munns, another senior PolyGram executive, is also quitting.

Acquisition puts Bronfman's credibility on the line

The Seagram president expects to make savings of up to $300m a year by joining forces with PolyGram, writes **Alice Rawsthorn**

After seven gruelling months of delays, Edgar Bronfman Jr, Seagram president, yesterday finally completed the $11bn acquisition of PolyGram, the world's largest music group.

The merger of PolyGram with Seagram's Universal Music subsidiary will create a colossus with nearly 24 per cent of the $38bn global music market.

Mr Bronfman is not only betting $11bn of cash and shares in the company his grandfather built on the deal, but risking his personal credibility among the financial community, which regards him as a pampered charmer who has inherited, rather than earned, his power at Seagram.

Mr Bronfman is gambling that the deal will work because of the profits to be unleashed by cutting PolyGram's and Universal's annual costs by up to $300m.

A few years ago, when the music industry enjoyed double-digit growth, a similar strategy would doubtless have succeeded; but he is ploughing his family fortune into music at a time when the industry is entering a far less favourable cycle.

After a heady decade, when consumers not only bought new releases but replaced old vinyl albums with compact discs, global record sales stalled in 1996. Growth has since been sluggish and seems set to remain so, until the economic situation stabilises in the once-buoyant Asian market.

Universal Music was far smaller, and therefore more vulnerable to the slowdown than PolyGram, Sony, Warner, EMI and Bertelsmann, the "big six" multinationals that claimed 78 per cent of record sales last year.

Rather than risk losing critical mass, Seagram decided to expand its music interests. The same concern may prompt Bertelsmann to bid for EMI, the only independent member of one of what are now the big five.

Music has historically been a cyclical sector, but some observers suspect its current difficulties reflect long-term structural changes, which could challenge the big five's dominance. One factor, according to John Kenny, analyst at Dresdner Kleinwort Benson, is that music faces unprecedented competition from other products, particularly those appealing to teenagers, traditionally its keenest consumers. "Instead of buying two CDs, they'll buy one and put the rest towards mobile phone cards or a computer game," he says.

Another issue is that the music market has become more mercurial, making it harder for artists to sustain success. Many of 1998's biggest hits are by acts, such as Master P in the US and Robbie Williams in Europe, who were written off last year; and recent releases by once-bankable stars, including R.E.M. and Whitney Houston, have sold poorly.

Such unpredictability would pose problems for any business, but is particularly damaging in music, where marketing budgets have escalated and a record company's expenditure on a new album is based on its predecessor's sales.

However, the principal threat to the industry's stability is the internet's emergence as an alternative means of distributing music – legally and illegally.

At present, most of the music distributed on the internet is pirated copies of CDs, which consumers download on to their computers as MP3 files, and then send to friends. The industry fears that this unpoliceable internet trade could spiral out of control once portable MP3 recorders and players become widely available.

The big five should be able to exploit the internet commercially by selling digital versions of music directly to consumers, thereby saving manufacturing costs and the retailer's margin. The US industry plans to start an online experiment with IBM next year.

However, the growth of online sales will put pressure on prices. Moreover, the big five will be moving from an orderly retail sector, that their marketing muscle allows them to dominate, into a fragmented market, where artists will also have the option of handling their own distribution.

Thousands of young, unsigned acts already bypass the music industry by selling their music from internet sites. The critical question for the big five is whether lucrative superstars will do so too: by using consultants for promotion and clinching cash advances in the form of securitised loans against future royalties from investment banks, as David Bowie has done.

"Some major artists are now starting to discuss internet distribution, albeit as a long-term possibility," says Paddy Grafton-Green, senior partner at Theodore Goddard, the London law firm which advises the Rolling Stones and David Bowie. The outcome of such discussions, more than anything else, will determine whether Mr Bronfman's $11bn gamble will pay off.

NEWS DIGEST

RETAILING

T Eaton disappoints with loss of C$12.5m in term

T. Eaton, the Canadian department store group struggling to reinvent itself as a purveyor of upmarket fashions, failed to meet expectations yesterday when it reported that slower than expected growth in overall sales led to a third-quarter net loss of C$12.5m, or 52 cents a share. One forecaster had expected the company to lose 16 cents a share, although other analysts said Eaton's results were not significantly below diminished expectations. The company reported a net loss of C$23.7m during the same quarter last year.

Analysts had expected the company to report earnings of 35 cents a share in the third quarter until it recently issued a profit warning, citing lower than expected sales and pressure on margins. It said that while third-quarter revenue would be higher on the strength of fashion sales, overall revenue would not be as strong as expected due to slow sales of hard goods.

Eaton, which emerged from bankruptcy last year, has been under pressure from low-cost competitors such Wal-Mart, which offer many of the same goods found in Canadian department stores. In response, Eaton has been updating its image by renovating stores, abandoning hard goods and offering brand name fashions to attract younger shoppers.

The company, which operates 64 department stores, said sales in its priority fashion categories increased 21 per cent over the year earlier to C$314m. Priority fashion sales now represent 80 per cent of the company's total sales, against 70 per cent previously. Analysts said the strategy appeared to be working, although not as quickly as Eaton had forecast. Jim Okamura, a retail analyst with JC Williams Group, said the company's early forecasts for its turnround had been over-optimistic. Brent Ballantyne, Eaton chairman, said that while sales had not grown as quickly as planned, the group remained confident in its strategy to focus on fashion sales.

Eaton shares fell 15 cents to C$5.10 at midsession yesterday, having been issued at C$15 in the company's C$180m IPO in June. **Scott Morrison, Toronto**

VEHICLE PARTS

Strong sales lift Magna Intl

Strong sales in North America and Europe enabled Magna International, the Canadian vehicle parts maker, to report a higher than expected 55 per cent increase in net income for its first quarter of fiscal 1999. The figure for the quarter to October 31 was C$147.8m (US$95.8m), or $1.67 a share, compared with earnings of C$95.1m, or $1.22m, last year. Analysts had expected the company to earn C$1.58. Magna said sales during the quarter jumped almost 46 per cent to C$3bn, reflecting a strong increase in the content of the group's part in North American and European vehicles. Results were helped by increased vehicle production on both continents. Operating income in the quarter rose from C$147.3m to C$233.4m.

European sales were up sharply as a result of Magna's acquisitions of Steyr-Daimler-Puch, the Ymos Automotive Group, Roltra Morse and Paulisch. The SDP purchase was significant for Magna, for it gave it the ability to engineer and assemble complete vehicles for producers.

Magna said its first quarter results were adversely affected by DaimlerChrysler's unusually slow launch of its LH mid-sized vehicles. **Scott Morrison**

INSURANCE BROKING UP TO 1,650 JOBS TO GO AFTER TAKEOVER OF SEDGWICK

Marsh & McLennan rules out more buy-ups

By Andrew Bolger, Insurance Correspondent

Marsh & McLennan of the US, the world's largest insurance broking group, has ruled out making further significant acquisitions in the insurance sector.

Ian Smith, chairman, said: "We are definitely not in acquisition mode in insurance. But we would like our management consultancy business to be bigger."

The New York-based company has just completed an agreed £1.25bn ($2bn) takeover of Sedgwick, its UK-based rival, having last year acquired privately-owned Johnson Higgins of the US for $1.8bn.

In spite of this acquisitive record, Mr Smith said: "We are not persuaded that size in itself is such an advantage. We did not set out to be consolidators. We have have been more interested in adding professional depth to the group, rather than coverage – which we already had."

Mr Smith said he expected that the enlarged group would trade as JH Marsh & McLennan in the Americas and as Sedgwick Marsh & McLennan elsewhere, although this was still "work in progress".

When the Sedgwick deal was first announced in August, Marsh & McLennan said it hoped to cut costs by at least $150m and that more than 1,000 jobs would be lost. Yesterday the US group said it expected the total job loss would be between 1,100 and 1,650, although some would go through natural wastage.

Mr Smith acknowledged there had been some concern about the growing power of his group and Aon, the Chicago-based group, which between them dominate the global insurance broking market. But he said: "We are not an irreplaceable service. If our clients are not happy, then they can insure themselves, or go directly to the insurers."

While its firm, William M Mercer, is a leader in the field of human resource consulting, Marsh & McLennan is anxious to raise the profile of Mercer Management Consulting, which was launched less than 10 years ago.

However, Mr Smith said: "We are more likely to expand the consultancy side through supplementary acquisitions, rather than tackle a different culture by taking over a large organisation." Turning to the group's third arm – investment management – Mr Smith said its company, Portman, had seen its funds under management shrink from $280bn to just over $245bn when Wall Street plunged in the summer, although it had now fully recovered.

Despite the market's subsequent bounce, Mr Smith said investor sentiment in the US had been affected and Portman was reacting accordingly.

He said: "We have cut back on our year-end celebrations because we want to adopt an austere attitude to costs in 1999."

Doubts raised about rush to consolidate

The collapse of the Clariant/Ciba merger plan gives rise to questions about the rationale for big mergers

By William Hall in Zurich

The sudden collapse of the merger of Clariant with Ciba Speciality Chemicals raised doubts about whether big really is beautiful in some industries and whether the hectic pace of consolidation in some of the world's biggest industries, such as pharmaceuticals and oil, deserves to be replicated in related industries.

Was the collapse of the merger a result of two managements who were in too much of a hurry to prove themselves? Or was it a decisive move by two companies which had looked at the numbers and decided that they did not add up after all?

Other companies might have persevered with the merger rather than risk the embarrassment of admitting that they had got it wrong.

Clariant, which was spun off from Sandoz in 1995, and Ciba, floated on the stock market by Novartis last year, were number one and two already in the $100bn a year speciality chemicals industry.

The proposed merger, announced on November 9, would have created a company with sales of SFr18bn ($13.3bn) and a workforce of 55,000 – twice as big as its nearest competitor.

Rolf Meyer, Ciba chairman, said in a letter to employees this week that while the "strategic and compelling industrial logic" of combining the two businesses had been confirmed, "there were unacceptable risks associated with progressing".

"The risks identified included a series of significant and material commercial, financial, legal and regulatory risks and constraints in executing the planned transaction and which would affect the future merged company."

Ciba considered the risks to be "so significant as to undermine the future benefits and synergies as stated as part of the rationale for the planned merger", said Mr Meyer.

Neither side was willing to elaborate on the risks which they had identified during their due diligence.

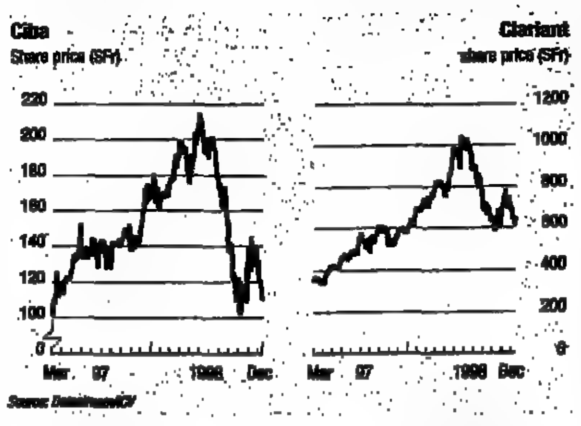
Michael Jacobi, Ciba chief financial officer, said yesterday that the fact that the two companies were less than five miles apart did not mean that "we knew all about the other company". There was not one "blockbuster reason" why the deal was scrapped, said Mr Jacobi.

The stock market was never as enthusiastic as the two company managements about the wisdom of the merger. Bank Sarasin, in a note last week, said that in the speciality chemicals industry "bigger is not necessarily better". Small increases in global reach, purchasing and pricing power will do little to address current threats to the enlarged group, said Sarasin's analyst.

"The whole merger was rushed, ill-thought out and ill-defined. These companies are often operating in niche markets where critical mass is not necessary," says Merrill Lynch. "When you have the two biggest companies by far in the industry getting together it did not make such obvious sense."

Daniele Scilingo of Bank Vontobel says the enlarged company would have had market shares in two of the overlapping divisions – polymer additives and pigments – that might have caused antitrust authorities to intervene. This would have reduced synergies.

Ciba shares closed SFr0.75 lower at SFr115 after a low of SFr108.25. Clariant shares rose SFr6 to SFr619.



WAZ Medien buys stake in Croatia group

By Kevin Done, East Europe Correspondent

WAZ Medien Gruppe, Germany's third largest publishing group, is expanding its interests in east Europe with the takeover of a 50 per cent stake in Europa Press Holding, the leading newspaper and magazine publisher in Croatia.

The acquisition is the first foreign investment to be made in the media in Croatia, and is a signal of growing investor interest in a country that has tended to be bypassed by investors in east Europe.

WAZ is to inject DM32m ($19.2m) in new equity capital to acquire the 50 per cent stake and shared management control, said Marjan Jurleka, Europa Press Holding executive director for development.

The group currently has 11 magazines, mainly consumer titles It also publishes the Croatian versions of Playboy and Cosmopolitan.

The group is planning to invest about DM80m over the next two years for new projects, including the development of alternative distribution systems and the launch of publications in other parts of former Yugoslavia – led by Bosnia-Hercegovina and Slovenia.

The deal will strengthen the presence of the independent media in Croatia against the heavy influence of the Croatian ruling party, the HDZ (Croatia Democratic Union) of President Franjo Tudjman.

The international community is pressing for greater media freedom, in particular in television, ahead of the next general election, which must be held by January 2000.

Europa Press Holding is forecasting a net profit of DM6m on a turnover of about DM100m in 1998.

The company was founded at the end of 1990 in the wake of the country's first multi-party elections by Ninoslav Pavic with the launch of the independent political weekly Globus. Mr Pavic will maintain a 50 per cent stake and will be joint chief executive.

Earlier this year it launched the Jutarnji List, which has quickly become the second largest selling national daily newspaper.

WAZ also has stakes in newspaper groups in Hungary and Bulgaria as well as in Austria, where it owns the Kronen Zeitung and Kurier titles.

The privately owned newspaper publisher, whose flagship publication is the Essen-based Westdeutsche Allgemeine Zeitung, is the third largest German publisher behind Bertelsmann and the Axel Springer group with a turnover of DM4bn.

Aetna buy shows commitment to managed care market

By John Authers in New York

Aetna's $1bn acquisition of Prudential Insurance of America's healthcare business yesterday removed any lingering doubt that it was serious about its belief in the controversial US managed care market.

It is the third big healthcare acquisition that Aetna has made in barely more than two years and has been completed despite serious problems integrating its first big deal – the $9bn acquisition of US Healthcare in 1996 – which forced it to issue two separate profits warnings and which inflicted serious damage on its reputation in Wall Street.

Richard Huber, Aetna chief executive, said: "In our industry, size and scale do matter. By combining these operations, we will be even better able to offer high quality care at a reasonable cost."

The deal makes Aetna the largest managed care provider in the US, providing services to about 10 per cent of US households. It will offer managed care in 31 states and have a leading position in nine of the 10 largest. The Pru has a big business in Florida, filling an important gap for Aetna, leaving California as the only large state where it does not have a big presence.

It has moved swiftly, as it is only nine months since Aetna bought NYLCare, the health business of New York Life, another large mutual insurer, for $1.05bn. Aetna has disposed of its individual life insurance and property and casualty businesses, which it sees as slower growth businesses, while it has made this acquisition campaign.

Mr Huber said the NYLCare integration was ahead of schedule, and he was confident that the deeply troubled merger of US Healthcare would not be repeated. This had involved merging 14 different information technology platforms into one – mainly due to problems in the original Aetna business, rather than at US Healthcare. Both NYLCare and the Prudential business come with only one platform.

US Healthcare came to the merger with four service centres while Aetna – much the same size – had 41. By the end of the integration process, this number had been reduced to a merged 24.

Mr Huber hopes to benefit from the drastic restructuring that has already taken place at Prudential over the past 18 months, as the parent company attempted to prepare it for a sale. While 18 months ago it operated from 44 separate service centres across the country, it has now slimmed this down to only four large centres, all of which will be retained.

Aetna expects to make synergy savings of between $130m and $150m in annual costs, equivalent to up to 15 per cent of the Prudential business's cost base. Most of this will come next year, mainly from the elimination of the Pru's corporate overheads.

NORMA COHEN
THE PROPERTY MARKET

Politics and the plough

Are farm values finally going to truly reflect economic worth?

Much of Europe is flat and arable. America, from the Ohio River to the Rockies, is the same, not to mention the ABCs of agriculture, Argentina, Brazil and Canada.

With such a surfeit of productive agricultural land, the prospective investor is arguably spoiled for choice and may have a hard time deciding which market is likely to provide the highest rates of return.

However, the components of farmland values are rarely focused on the productivity of the underlying real estate, says Jim Ward, head of the agricultural research department at FPDSavills. The story of agricultural land values has been more about how much governments were prepared to pay to support the prices of commodities. Hence a "true" farmland market has not been the norm for much of this century.

However, proposed changes to the EU's Common Agricultural Policy (CAP), to take place after 2000, are likely to make underlying farmland prices much more sensitive to the market values of the commodities they produce.

"We are in to a brave new world here," Mr Ward says. "The EU markets will move much more in line with world prices and we think there will be four- to five-year cycles." His company is forecasting a further drop in UK agricultural land values from the peak in mid-1997.

A "true" market has not existed in the US either where, until fairly recently, subsidies have played a significant role. However, with the US unwinding its agricultural subsidies and the EU contemplating a scaled down version of CAP, there is the prospect of a more truly commercial market in *farmland values*.

Meanwhile, a nascent commercial market in agricultural land is emerging in eastern and central Europe, says Henry Wilkes, who researches that region for FPDSavills.

In most countries there are still restrictions on foreign ownership of land, which may depress land prices and deter investors. For instance, in Hungary, which arguably has the richest soil in Europe, foreigners may lease land but not own it, and significant stretches remain in state hands. In Poland, foreigners may acquire land only through a company in which foreign ownership is no more than 49 per cent. In the Czech Republic, foreigners may own, lease and buy land, but there are serious restitution problems, with the state facing many claims from pre-communist era owners.

The big question, says Mr Wilkes, is what will happen when these countries seek EU membership. Will they bring production into line with that agreed with the EU? And what will be the effect on grain prices – and on the land on which it is grown – in the EU generally.

Mr Ward says the thrust of CAP has been to help support the prices farmers earn for goods sold in their domestic markets and to allow the use of export subsidies to depress the prices of commodities sold abroad, maintaining competitiveness.

This in turn eventually depresses foreign commodities prices, making imported goods more competitive, driving down domestic prices further.

The effect of changes to the CAP programme, along with bumper harvests in 1995 and 1996, led to a precipitous decline in UK wheat prices in late 1996 and through 1997, with a trough around the middle of 1998.

Meanwhile, the market value of UK arable land mirrored the fortunes of UK wheat, but far more modestly than would have been suggested by wheat prices. Agricultural land specialists in other countries say the same is true around much of the world.

The purchase of farmland by non-farm buyers has also been a significant crutch for agricultural land values.

Porter Martin, president of Martin, Goodrich & Associates, an agricultural real estate and farm management company based in De Kalb, Illinois, says farmland values on city peripheries in the US's corn belt have commanded fantastic premiums when resold for residential development. Naperville, an area outside Chicago and home to a number of growing high-tech companies, has farms selling for $25,000 to $75,000 an acre, against one-tenth of that just 30 miles away.

Moreover, a tax rule allows what is known as "an exchange" whereby the non-farm purchaser buys an area of much cheaper land which allows him to effect the purchase of the expensive land as an exchange, rather than as a purchase. Under these terms, the farmer-seller incurs no capital gains liability, and is free to use the proceeds to buy a much larger farm in the corn belt heartland which stretches from Ohio through Nebraska, and Minnesota through Illinois.

These farmer-buyers, in turn, are helping to support agricultural land values in the US heartland.

Even farmland outside less vibrant cities than Chicago – such as St Louis and Detroit – are experiencing similar upward pressure from non-farm buyers.

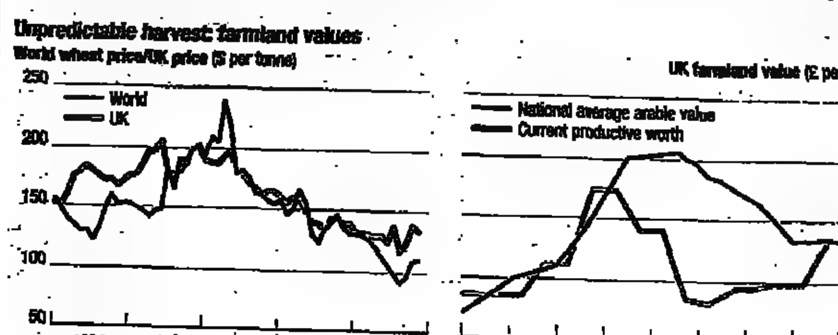
Moreover, says Mr Martin, even if commodities prices are falling, bio-technology is enabling US farmers to grow more bushels an acre than ever. Thus, farm incomes have grown for the past 11 years, regardless of the swings of commodities prices.

However, Mr Martin says the recent collapse in world grain prices is beginning to take its toll, and this is filtering down to land prices, which have softened by 10 per cent to 12 per cent, particularly for less productive plots.

The question about the future of agricultural values may thus be a question of political will. Are governments prepared to reduce their efforts to cushion farmers from the cyclical gyrations of world markets, or will the next crisis spur new efforts to prop up grain prices and the land upon which it is grown?

The next property column will appear on January 8.

Unpredictable harvest: farmland values



MAIL DELIVERY GERMAN POSTAL SERVICE SPENDS DM1.8bn ON DANZAS PURCHASE

Deutsche Post expands with Swiss buy

By Frederick Stüdemann in Frankfurt and William Hall in Zurich

The consolidation of Europe's mail delivery and logistics sector took a significant step forward yesterday when Deutsche Post, the acquisitive German postal service, announced an agreed DM1.8bn ($1.08bn) takeover of Danzas, the Swiss logistics group.

The cash deal, which at SFr590 a share offers Danzas shareholders a 36 per cent premium on Wednesday's closing price, is the latest in a series of acquisitions by state-owned Deutsche Post, which aims to become Europe's biggest integrated logistics company.

Klaus Zumwinkel, Deutsche Post chairman, said the takeover was a response to globalisation and the launch of the single European currency. "The increasing globalisation of business and especially the process of European integration mean the business relationships of customers are becoming increasingly international."

He said that with 80 per cent of Deutsche Post sales coming from business customers, the company needed to respond with a more international level of service and offer a "one-stop-shop" offering everything from traditional letter and parcel delivery to overnight couriers and information technology-supported transport logistics.

There are three planks to Deutsche Post's international strategy: building up a European parcel distribution network; expanding an international over-night delivery service; and logistics and value-added services.

Mr Zumwinkel said the flurry of recently acquisitions carried out by Deutsche Post needed to be seen against this backdrop.

This year it bought stakes in DHL, the international courier service, and the parcel distribution business of Securicor of the UK. Last week alone Deutsche Post announced it would take over, from January 1, Postbank, Germany's postal savings bank, for just over DM4bn and also that it was buying Ducros, a French parcel distribution company.

Danzas will be expanded into the main logistics arm of Deutsche Post. Peter Wagner, Danzas's chief executive, will join Deutsche Post's management board as head of logistics.

Mr Zumwinkel said the inclusion of Danzas represented a further bolstering of Deutsche Post ahead of privatisation in 2000. The company will retain a monopoly on some mail services within Germany until the end of 2002.

In the first half, Danzas' net income more than doubled to SFr28m ($20.6m), though analysts doubted whether it had the financial strength to take part in the consolidation of Europe's transport industry. Last year it had operating profits of SFr85m and a return on sales of 0.8 per cent.

Credit Suisse First Boston advised Deutsche Post and Warburg Dillon Read advised Danzas.

Observer, Page 13

Germans first past the post

DP has been most the aggressive in responding to liberalisation of the industry, say **Charles Batchelor and William Hall**

For a sleepy, state-owned post office, Deutsche Post has proved remarkably fleet of foot. Yesterday's acquisition of Danzas, the Swiss freight forwarder and logistics group, is the latest in a series of deals which have broadened DP's range of activities.

But the move is also typical of the response of other post offices as they face growing pressure from agile commercial competitors in their parcels and traditional markets and governments around the world liberalise their postal services.

Increasingly, they are acquiring private-sector companies in parcels and logistics to broaden the range of services they can offer to ever more demanding international customers.

The prospect of liberalisation of the European postal market from 2003, with the size of "protected" mail – mail reserved for the national postal service – expected to be reduced from 350 grammes to 100 grammes, threatens tougher competition and gives an added spur to the ambitions of post-office managers around the continent.

DP, invigorated by the injection of McKinsey-trained consultants, has been the most aggressive, acquiring 22.5 per cent of DHL last March and half of Securicor Omega Distribution of the UK last month.

Anyone who had suggested five years ago that TNT and DHL, two of the four global "integrators" alongside Fedex and UPS of the US, would succumb to post-office bids would have been laughed out of the post room.

The integrators – so called because they provided a door-to-door service – were in the forefront of technical and commercial progress from the early 1970s to the early 1990s.

With their fleets of aircraft, their massive sorting hubs, and their armies of delivery men and women, they became a powerful new force in the distribution industry.

But the German post office is not the only organisation to expand into parcels and the heavier side of distribution. The Dutch postal and telephone service, floated on the Amsterdam stock market in 1994, has also been expanding through acquisition, most notably through its purchase two years later of the TNT parcels group.

However, the surprising element in the commercialisation of Europe's post office has been the slowness of the British. Earlier this week the government once again ruled out even partial privatisation of the Post Office.

Peter Mandelson, trade and industry secretary, opted instead for a limited package of reforms, including cutting the Treasury take from PO profits and giving greater freedom to invest. But this puts the PO where its Dutch counterpart was 10 years ago, said one commentator.

Danzas, the freight forwarder in yesterday's deal, has had its own problems. It has been struggling to recover from the creation of European single market, which did away with most customs controls and the need for services supplied by the freight forwarder. Profits have been recovering but remain very low.

The power of the post offices is a source of concern to the independents, grouped in the European Express Organisation, which represents companies such as FedEx, United Parcels Service and some smaller operators. They have been concerned that post offices could cross-subsidise their move into the parcels market.

The shift in power from the integrators to the post offices is only part of a wider transformation under way in the business of moving documents, industrial components and even larger items around the world.

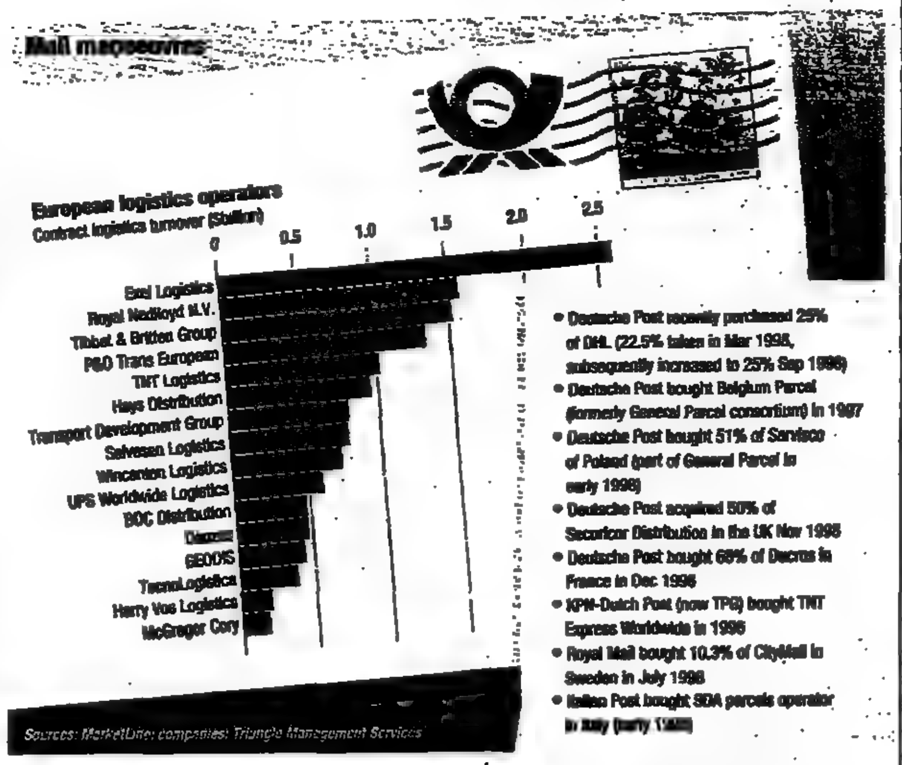
Driven by globalisation of industry and the breaking down of trade barriers, exporters increasingly demand a global spread from their distribution company. This has prompted a merger frenzy among the logistics groups, the freight forwarders and the shipping lines which have traditionally dominated these markets.

Yet even the largest of the groups active internationally, such as Exel and Tibbett and Britten of the UK, Danzas, Tecnologistica of Spain and Geodis of France, cannot offer a truly global service.

The desire to create more comprehensive groups led to the merger just over a year ago of Schenker-Rhenus of Germany, and BTL of Sweden to create Schenker BTL, one of the largest land transport and distribution networks in Europe.

And the process is by no means over. Viag, the German conglomerate, recently put up for sale its 30 per cent holding in Kuehne & Nagel, a large freight forwarder.

Paul Jackson, chief executive of Triangle, a logistics consultancy, forecasts that five or six large groups will dominate the European cross-border market within seven or eight years.



Oslo set to join Nordic bourse tie-up

By Valeria Sköld in Oslo and Tim Burt in Stockholm

The Oslo stock exchange is finalising plans to join Norex, the proposed equity trading alliance between the Stockholm and Copenhagen bourses, in the latest cross-border partnership between European exchanges.

Kjell Fronsdal, director of the Oslo stock exchange, told the Financial Times that the terms of a possible alliance had been hammered out after six months of talks with the prospective Nordic partners in Norex, which is due to be launched next summer.

The proposals to join Norex will be put to the Oslo exchange's board and its participating brokers, insurers and investors.

Mr Fronsdal indicated that Oslo's participation could hinge on Norex agreeing to take part in a broader alliance with the proposed London-Frankfurt stock exchange partnership.

He highlighted the precondition by pointing out that more than 70 per cent of the foreign investors on the Oslo stock exchange – capitalised at NKr427bn ($57.5bn) – operate from London.

Mr Fronsdal said the Oslo exchange is considering splitting its NKr78bn worth of shipping and offshore listed shares into a niche exchange for alliances with other shipping indexes.

Bengt Rydén, chairman of Norex and managing director of the Stockholm bourse, yesterday welcomed Oslo's likely participation in the Nordic alliance and hinted that it could join a broader European partnership in future.

"Our door is open. Our answer to Oslo is that we do not exclude any links or relations with other exchanges – including bilateral ties," said Mr Rydén.

Mr Rydén, however, expressed disappointment at the recent decision by the Helsinki bourse to pursue a relationship with Frankfurt rather than join Norex.

Last month, Helsinki also announced that it was joining Eurex, the joint German-Swiss derivatives exchange.

In Oslo, Mr Fronsdal admitted there was growing pressure to join larger European partnerships.

"Whatever we do, Nordic alliances or alone for the time being, or even looking down farther south to Europe in a direct step, we will never marry ourselves to a solution which excludes us from developments in Europe," he added. It is understood that the exchange has overcome technical problems that would allow it to link its new computer trading system with Stockholm's SAX2000, both of which start early next year.

Nevertheless, the Oslo exchange emphasised it was considering only co-operation on equity trading as its bond market is relatively small. That bond market is linked to Stockholm through a partnership with OM, Sweden's quoted securities exchange operator.

Separately, the Oslo stock exchange plans to change its status from being a not-for-profit institution to a private company.

FINANCIAL SERVICES BELGIAN CABINET APPROVES SALE OF REMAINING 25.1% OF BANK FOR BFr51.85bn

Fortis given ASLK-CGER clearance

By Jeremy Gray in Amsterdam

Fortis, the Belgo-Dutch financial services group, yesterday won Belgian cabinet approval to buy the remaining 25.1 per cent of ASLK-CGER, Belgium's fourth-largest bank, from the government for BFr51.85bn ($1.51bn).

Fortis, which already owns 74.9 per cent of the formerly state-owned bank, has been poised to take full control since the Belgian government passed a law in July clearing the way for full privatisation.

The purchase price, which covers BFr1.35bn in dividends and the remaining 0.1 per cent of ASLK-CGER's insurance arm, will come out of reserves bolstered by a Fl 1.5bn ($800m) convertible bond Fortis issued in October.

Pending approval by the Banking and Finance Commission, the Belgian watchdog, the deal will end a phased sell-off which began in 1993, when Fortis bought almost half of ASLK-CGER's equity.

The operations of the 123-year-old institution would be placed into a new banking division which would include VSB and MeesPierson, the Dutch banking groups, as well as Generale Bank, Belgium's biggest bank, which Fortis snapped up from rival bidder ABN Amro last summer.

Fortis also said it would arrange a "squeeze-out" of the remaining 0.04 per cent of ASLK-CGER's bank shares that are publicly traded.

Herman Verwilst, Fortis deputy chairman, told VRT radio that the price for the final stake was "right" but conceded that the payment agreed was above Fortis's initial bid.

He declined, however, to confirm that the difference had been as high as BFr10bn.

Herman van Rompuy, budget minister, said separately that the proceeds of the sale would go towards cutting Belgium's debt and interest burden.

Cofir to shift focus to hotels business

By Tom Burns in Madrid

Cofir, a Spanish holding company with a wide institutional shareholder base, yesterday unveiled a big restructuring designed to propel it into the international hotel chain business.

It said it would sell its wine division, invest in hotels and change its name at the beginning of next year to NH, the brand name of its 66-strong city hotel chain in Spain.

The re-branding of Cofir comes as the stock, one of the most widely-held on the Madrid market, is poised to join the Bolsa's Ibex-35 index of most liquid equities.

The company said NH had acquired two hotels in Buenos Aires, one in Montevideo and had signed management contracts for a third hotel in the Argentine capital and for one in Tucumán, Argentina.

The hotel chain will invest Pta3.5bn ($24.6m) in this initial move to build up an international network.

The restructuring brings a different profile to Cofir, which was launched on the Spanish market as a diversified conglomerate by Carlo de Benedetti, the Italian financier, 10 years ago.

It was streamlined to concentrate on hotels and wines after Mr de Benedetti sold his 48 per cent stake in the holding company in 1996. Cofir has a market capitalisation of Pta155bn.

Gabriele Burgio, Cofir chairman, said he had received a number of offers for Bodegas Arco, a leading producer of upmarket Rioja wines in which the group holds a 55 per cent stake valued at about Pta18bn. "It is my duty to consider these bids because the thinking of the board has changed and it is now focusing solely on hotels."

A sharp rise in income from NH due to greater occupancy, higher margins and an increased number of hotel units, fuelled a year-on-year 98 per cent rise to Pta2.6bn in Cofir's consolidated net profits at the nine month stage.

BOURSES MOVE TO COUNTER EURO NM

Easdaq seeks new chief as rival threatens

By Katharine Campbell, Growing Business Correspondent

Easdaq, the pan-European stock market for growth companies, has begun searching for a new chief executive as it struggles to hold its ground against Euro NM, the network of local bourses.

Jacques Putzeys, who has run the Brussels-based market since it started two years ago, will step up to become vice chairman and focus on marketing.

The exchange has found it harder than expected to attract new listings, with only 38 to date. However, it has achieved a strong technology focus, and its companies have an average capitalisation of $367m. Global TeleSystems, the US telecoms group which is buying Esprit Telecom in a $757m transaction, is a member, as is its target Esprit.

Euro NM, whose most active constituents are the nouveau marché in France and the Neuer Markt in Germany, has proved successful in winning support from local investors. The nouveau marché and the Neuer Markt are exchanges that list small companies.

It is also attracting international companies. Amir Aharoni, chief operating officer of Optibase, an Israeli business specialising in digital video products, said yesterday he was planning a listing on the nouveau marché next year. He had chosen the French bourse as two recent Israeli flotations had done well and the market seemed to be geared to high-technology companies.

A source close to Easdaq said the organisation was looking for a new chief because it had "grown to a size where there is a need to add to the management team. This is in no sense a boardroom coup". The bourse wants to redouble its marketing efforts, and is raising an additional $20m of capital from existing and new shareholders.

In response to Euro NM's success in developing its local investor bases, Easdaq has recently opened offices in Paris and Frankfurt, with further representation planned. It has also hired Clive Pedder, previously of Euro NM, as head of marketing and communications.

Euro NM's 156 members have a combined market capitalisation of $32.7bn, compared with Easdaq's $13.9bn. Daily turnover on the Euro NM exchanges is $102m, compared with $76m weekly at Easdaq.

Headhunters will look for an individual with financial services experience in America as well as Europe. Mr Putzeys had been president of Banque Nagelmackers/Codep of Belgium before joining Easdaq.

NEWS DIGEST

NORDIC BANKING

Den Danske Bank secures 93% of Fokus's capital

Den Danske Bank, Denmark's largest, yesterday moved closer to taking over Fokus Bank, Norway's fourth-largest lender, when it announced it had secured 93.4 per cent of its target's share capital. The Danish bank, which last week extended the deadline for acceptances from December 4 to yesterday, now faces the political hurdle of gaining acceptance by the Norwegian competition authorities and the finance ministry.

Analysts believe Den Danske Bank will succeed in what would be the first foreign takeover of a Norwegian bank this year, but say there is still political uncertainty over whether the deal will be approved. Norway's centre-led minority coalition government, which wants to establish a financial centre away from Oslo, earlier this year rejected a takeover of Bolig-og Naeringsdom Bank, a niche mortgage lender, by Den norske Bank, Norway's largest, because the banks wanted to base their headquarters in the capital.

Den Danske has said it would retain the Fokus brand name and its existing management. It has also pledged to maintain Fokus's corporate base in Trondheim. "The question is whether [Den Danske's] takeover works against the government's emphasis to have a financial centre outside Oslo," one analyst said. **Valeria Sköld, Oslo**

GREECE

Control of Athens SE sold

Greece's Socialist government has completed the sale of a controlling stake in the Athens Stock Exchange company and plans to list it on the bourse next year. Domestic banks, brokerages, pension funds and insurance companies hold 51 per cent of the ASE company following a private placement last month of another 12 per cent of its equity.

The ASE is the first big company in Greece's public sector to be privatised. The government has sold controlling stakes in several small banks but has set a ceiling of 49 per cent for equity disposals in telecoms and other utilities. The sale of 600,000 shares raised Dr10.2bn ($36m). Alpha Finance said the offering was subscribed 2.5 times.

Alpha Finance, the investment banking arm of Alpha Credit Bank, a private Greek bank, and ETEVA, the state-controlled investment bank, advised the government on the deal. **Kerin Hope, Athens**

SOUTH AFRICA

Anglo carries out share swap

Anglo American Corp of South Africa said yesterday it would swap 55 Anglo shares for every 100 in Anglo American Industrial Corp (Amic) under a previously announced plan to take full ownership of the company. In October Anglo unveiled a massive restructuring to move its domicile to London and consolidate a number of operations in which it held large interests. **Reuters, Johannesburg**

Old Mutual chief quits

Garth Griffin, managing director of Old Mutual, the biggest South African life assurer, has resigned for personal reasons, the group announced yesterday. The decision is a blow for Old Mutual, which is planning to demutualise next year and move its primary stock exchange listing to London if it gets permission from the South African government.

Old Mutual said there was no connection between Mr Griffin's departure and the sudden resignation this week of 13 members of its asset management team.

■ **BOE**, one of the big South African financial services groups that has undergone restructuring, yesterday reported a 203 per cent increase in headline net earnings to R485m ($81.13m) in the year to September, compared with R160m in 1997. Pre-tax profit rose to R2.84bn from R153m, while headline earnings per share increased 73 per cent to 45 cents from 26 cents. BOE's total assets under management were R78bn at the end of the financial year. **Victor Mallet, Johannesburg**

Harvey Nichols' seasonal gloom

By Peggy Hollinger

Consumer confidence is too low for yesterday's interest rate cut to revive spending in the run-up to Christmas, according to the luxury UK department store group, Harvey Nichols.

Joseph Wan, chief executive of the company which yesterday became the latest in a string of retailers to issue a profits warning, said trading conditions were very tough. "The half point interest rate cut will certainly help, but you cannot reverse the drop in consumer confidence overnight," he said.

Mr Wan said he expected no upturn in the retail sector before the middle of next year. "But hopefully, at least in the luxury-goods sector, we may feel a bit of uplift due to the millennium celebration factor."

Harvey Nichols reported interim pre-tax profits flat at £6.09m (£6.07m), on sales 1.3 per cent ahead to £61.7m ($102m) for the six months to September 26.

In the first 11 weeks of the second half, sales were running about 2.7 per cent below the levels achieved last year. If sales continued at this level, said Mr Wan, Harvey Nichols could expect to report net profits some 1 per cent below last year's £12.1m. However, he added, forecasting was dangerous as trading was extremely erratic from week to week.

Mr Wan said the flagship London store had been the hardest hit by the drop in confidence and by the absence of high spending tourists, showing even sharper sales declines than the 2.7 per cent.

The store in Leeds and the Oxo Tower restaurant in London were showing positive sales growth.

Mr Wan said the group was in negotiations over a site for a store in Edinburgh.

The group is also planning to wholesale its own brand food products and is in discussions with a Japanese department store group.

The dividend was maintained at 2.1p, on earnings up from 7.5p to 7.6p. The shares slipped 1½p to close at 116½p.

Dickson loss, Page 16

Royal Doulton to axe 20% of staff

By Charles Pretzlik

Royal Doulton, the china manufacturer and retailer, is to axe 1,200 jobs and will be hit by £45m ($75m) of one-off charges this year as it attempts to recast itself following a slowdown in sales.

The brunt of the job losses, which represent almost a fifth of the group's workforce, will fall in Britain. About 1,000 jobs will be lost at the group's operations in Stoke-on-Trent. Half the cuts will take effect by January with most of the other job cuts taking place by Easter.

The job losses come on top of 330 previously announced redundancies at Royal Doulton's St Mary's factory in Stoke, which will close in June. Royal Doulton also warned about trading for the second time in three months. It said sales in the 11 months to November 30 fell 5 per cent to £205m.

More than half the group's sales are gifts like mantlepiece figurines but it said the prospects for Christmas trading were poor and added it "expects sales in 1999 to be lower than in 1998". As a result, it will not pay a final dividend this year.

The news follows poor interim results and a profits warning in September. However, Hamish Grossart, who was appointed non-executive chairman in July, said the group's problems run deeper than a slowdown in consumer spending.

"Royal Doulton has been slow to face up to the hard realities required to succeed as an international business," he said. "It has had too many products, is overstocked, has over-invested in production capacity and under-invested in selling, marketing, branding and retail positioning in a number of its markets."

Mr Grossart – a nephew of Sir Angus Grossart, chairman of the Noble Grossart merchant bank in Edinburgh – has a reputation as a turnaround specialist. He said: "This is a three or four year process."

He was brought in by Patrick Wenger, who took over as chief executive 18 months ago after Stuart Lyons resigned following a failed acquisition attempt which cost £1.6m in advisers' fees.

Other management changes included the early retirement of the finance director, Peter Walley, who was succeeded last month by Wayne Evans.

Under the restructuring three satellite warehouses will be consolidated into one and most of its UK ceramics factories will close early for Christmas and open later than normal next year.

The redundancy programme will cost Doulton £7.5m. Stock write-downs will account for another £18m of the one-off charges with a further £12m coming from writing down the value of fixed assets. Other measures, including the closure of under-performing stores, will cost about £4m.

Upbeat Racal highlights growth opportunities

By Thorold Barker

Racal Electronics highlighted the opportunities presented by consolidation in the European defence industry and delivered an upbeat assessment of its future prospects as it unveiled interim results in line with expectations.

Pre-tax profits from the electronics and telecommunications group were £39.1m (£10.7m) for the six months to October 9, on turnover of £542.4m (£596.4m). Operating profits from continuing operations including joint ventures fell from £49.9m to £46.9m ($78m).

Sir Ernest Harrison, chairman, said the figure had been held back by lower than expected revenues in the telecoms division and by a delay in overseas orders for the defence division.

"Next year we will see a very significant improvement in the performance of the group," said Sir Ernest.

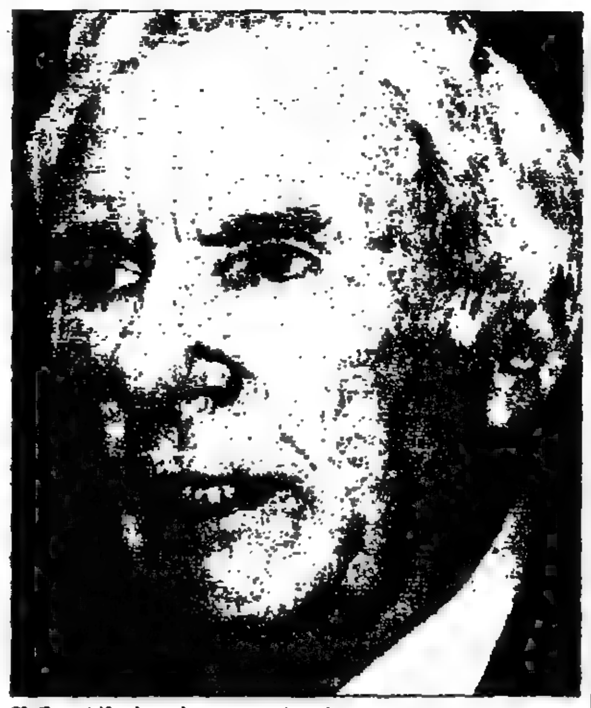
There has been speculation that companies such as GEC or British Aerospace could be interested in the defence division. Sir Ernest said approaches would be considered, but the division, which has a strong position in niche areas of defence electronics, could also have an independent future.

The group announced a digital military communications joint venture with Thomson CSF of France, and £50m contracts for naval electronic warfare systems.

Richard Moon was appointed chief executive of defence electronics activities with the priority of integrating Racal's defence radar and radio communications into a single business. Operating profits in the former fell to £12.5m (£13.9m); the operating loss in the latter widened to £5.1m (£2.6m).

Operating profits in the telecommunications services division fell to £11.4m (£16.6m), because of lower than expected sales to corporate customers.

Sir Ernest said the group still planned to float the business, but it would have to demonstrate its growth potential first.

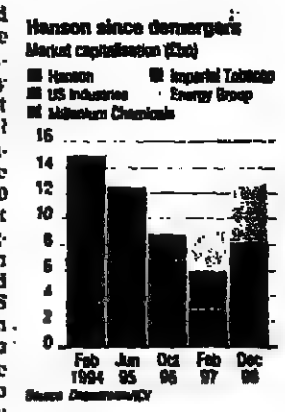


Sir Ernest Harrison: improvement next year

COMMENT

Hanson

When Lord Hanson started breaking up his empire, he predicted his "grandchildren" would do extremely well on their own. Now that Hanson and Imperial Tobacco, two of the conglomerate's five offspring, are returning to the FTSE 100 index, his progeny have at last grown up. Since the fragmentation's final stage in February 1997, the combined market values of Hanson, US Industries, Millennium Chemicals, Imperial Tobacco and Energy Group have increased by 44 per cent to £12.9bn. That is double the UK market's growth.



If you draw the line from other stages of the demerger process, however, the picture is far less flattering. At its peak in February 1994, "old" Hanson had a market value of £15bn. In mid-1995, when 30 American companies were spun off as US Industries, the two companies were worth £12.5bn. But between the announcement of a more fundamental break-up in January 1996 and the listings of Millennium and Imperial that October, the Hanson empire shrank from £10.5bn to below £9bn. Since then, the independent companies have had to tackle higher central costs and the loss of old tax synergies, but the optimists have been proved right in some ways. Bid speculation and – in the case of Energy Group's £4.45bn takeover by Texas Utilities – bid activity, have helped some of the companies' ratings. Independent managements have also been better received by investors.

Millennium has disappointed most, struggling in highly cyclical markets. However, its independence should position it better in the inevitable consolidation in its sector. US Industries, the only one to carry on the family tradition of conglomeracy, has fallen 45 per cent from last summer's peak, but is still two-and-a-half times its size in 1995.

Imperial Tobacco has made two big acquisitions, but has benefited this year from not being exposed to the litigious world of US smokers. Its defensive qualities were hidden in old Hanson, but it will be difficult to reproduce its recent rerating next year. Ironically, perhaps, "new" Hanson offers the most appeal. It has raised £700m from clearing out such scraps as Melody Radio, and focused on its strong positions in sand and aggregates.

The sins of the grandfather, it seems, are not being visited unto this generation.

Bupa buys Barbican Healthcare

By Susanna Voyle and Maggie Urry

Bupa, the healthcare group, is buying Aim-traded Barbican Healthcare for £22.7m ($38m) in an agreed cash deal that will give it a presence in dental practices.

The offer of 117p a share in cash, with a loan note alternative, has been accepted by holders of 71.9 per cent of Barbican's shares. The price is nearly twice that at which Barbican floated in 1996, and 95 per cent above the price on November 18, the day before Barbican announced it was in takeover talks.

Val Gooding, chief executive of Bupa, said the deal was consistent with the group's strategy of developing integrated healthcare services. Barbican said it accepted the deal after considering all its options for growth, including continuing its recent policy of expanding both organically and by acquisition.

Barbican shares closed 30p up at 112½p.

Ms Gooding, who took over as chief executive of Bupa in August after joining from British Airways in 1996 as director of UK operations, is determined to retain Bupa's independence through its provident status, similar to the mutual status abandoned by many building societies and insurers.

In spite of a spate of rumours that Bupa was being eyed by potential purchasers – particularly Halifax, the banking group – Ms Gooding said it had not received any approaches.

"There have been so many rumours – but there is no truth in them," said Ms Gooding. "We are the leader in our sector ... It is not in the interests of our customers to be part of a big bank. We are not going to change our status and we are not interested in selling to anybody."

The business – which spans health insurance, nursing homes and private hospitals – is seen by many as a target in the consolidating private medical insurance industry.

Ms Gooding said provident status is the ultimate defence for Bupa because it cannot be taken over without its consent.

"I would hope there could be a reawakening of interest in alternative status for companies," said Ms Gooding. "Plcs shouldn't be thought of as the only status. There are still some very big companies that have not chosen to demutualise at all."

Bupa is being advised by KPMG Corporate Finance, and Barbican by Hawkpoint Partners.

Spanish deal for Eastern

By Andrew Taylor in London and Tom Burns in Madrid

Eastern Group, Britain's biggest electricity supplier, is expected today to announce a Spanish electricity and gas trading joint venture with Hidroeléctrica del Cantábrico, the country's fourth largest power company.

The deal is expected to involve Eastern, which supplies electricity to more than 3m customers in eastern England, taking a small stake in the Spanish electricity utility.

It is the latest in a series of continental European transactions involving Eastern, which is seeking to take advantage of the liberalisation of European Union power markets next year.

From February EU countries must open at least 25 per cent of domestic electricity markets to competition rising to 33 per cent by 2003.

The company already trades electricity on the Nord Pool, the Scandinavian power market. It also has a separate joint venture with Lunds Energi, the Swedish power company. Eastern last month announced a link-up with Energie Noord West to sell gas to industrial customers in Netherlands.

A link between Eastern Group and Hidrocantábrico marks the second entry into the Spanish market – Europe's fifth largest – by a UK electricity producer in just over a month. National Power in October paid £400m ($663m) for 25 per cent of the generation unit of Unión Fenosa, the third largest domestic power company as part of a strategic alliance to develop generating capacity in the Iberian Peninsula, North Africa and Latin America.

An association with Eastern will lend credibility to Hidrocantábrico's bid to survive the onset of competition and it gives the UK group a quick entry into the deregulated Spanish sector.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Brooks Industrial	Yr to Sept 30	29.1	(36.6)	1.14♦	(1.71)	11.1†	(18.3)	3.5	Apr 6	3.5	5.25	5
Bulmer (HP)	6 mths to Oct 23★	165	(154.2)	14♦	(14.2)	10.63	(10.57)	5.2	Feb 15	5.2	-	15
Calltech	Yr to Sept 30	11.7	(4.3)	3.11L♥	(12L)	4.4L	(18.2L)	-	-	-	-	-
Chemoxy Intl	Yr to Sept 30	2.47	(2.14)	0.461	(0.34)	1.11	(0.79)	0.25	Apr 7	0.2	0.35	0.2
Compass	Yr to Sept 30	4,214	(3,703)	169.1	(137.8)	17.8†	(15.8)	[illegible]	Apr 8	3.35*	5.55*	4.9*
Countryside Props	Yr to Sept 30★	209.5	(202.4)	14.6	(9.31)	14.8	(10.6)	2.5	Apr 8	2	3.75	2
Daily Mail	Yr to Sept 27	1,418	(1,200)	197.4♥	(143.7)	136.1	(92.4)	18	Feb 12	16	26	23
Drummond	6 mths to Sept 30	26.2	(28.3)	0.405	(0.508)	1.2	(1.56)	nil	-	0.5	-	0.5
Eskmuir Props	Yr to Sept 30	22.7	(19.4)	7.3	(8.46)	10.57	(10.47)	4.4	Mar 5	3	6.6	6
Falkland Islands	6 mths to Sept 30	5.07	(-)	0.52	(-)	8.7	(-)	-	-	-	-	-
First Technology	6 mths to Oct 31	26.4	(27.7)	6.37	(5.77♥)	8.02	(8.1)	2.1	Mar 1	1.8	-	5
Hadleigh	6 mths to Oct 2★	15.5	(14.3)	0.685♦	(0.789)	7	(7.2)	2.25	Jan 29	2.25	-	7.5
Harvey Nichols	6 mths to Sept 26	61.7	(60.9)	6.09	(6.07)	7.6	(7.5)	2.1	Feb 12	2.1	-	6.9
Heath (Samuel)	6 mths to Sept 30	5.42	(5.13)	0.39	(0.405)	9	(9)	3.5	Mar 29	3.5	-	8
Hi-Tec Sports	6 mths to Oct 31	40.1	(48.8)	1.29L	(1.22)	2.5L	(7.8)	0.5	Apr 9	0.8	-	1.5
Homis	Yr to Sept 30‡	12.9	(12.4)	1.24♦	(0.883)	3.1	(2.7)	0.5	Jan 22	-	0.8	-
Jones & Shipman	6 mths to Sept 30	9.62	(9.18)	1.27L	(0.29L)	4.8L	(1L)	nil	-	nil	-	0.5
Lisalt	6 mths to Sept 30	-	(-)	39.9♦	(59.6♥)	13.11†	(20.3)	2.2	Jan 25	2	-	13
Racal Electronics	6 mths to Oct 9★	548	(596)	39.1	(10.7♦)	10.11	(2.41)	2.1	Feb 5	2.1	-	6
Reliance Security	6 mths to Oct 30	62.4	(57.8)	2.83	(2.1)	8	(6.3)	2.2	Jan 29	1.85	-	7.6
Stagecoach	6 mths to Oct 31	722.7	(681.5)	86.1♦	(70.5♦)	5.6†	(4.2)	1	Mar 18	0.8*	-	2.4*
Titon	Yr to Sept 30	18.5	(12)	1.77	(1.34)	10.93	(8.55)	3.8	Feb 25	3.5	5.4‡	5.2
Trio	Yr to Sept 30	28.2	(27)	2.2♥	(2.79L♦)	1.38	(3.55L)	nil	-	nil	nil	nil

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
[illegible] Inc & Growth	6 mths to Oct 31	-	(-)	0.95	(0.885)	3.59	(3.15)	1.5♦★	Jan 22	1.5	-	7.4

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ♥After exceptional credit. †On increased capital. ★Comparatives restated. *Restated for share subdivision. ‡Includes foreign income dividend element. ‡Comparatives pro forma. ‡Excludes 14p special. ♦Second interim.

PowerGen moves to cut gas prices

By Andrew Taylor, Utilities Correspondent

PowerGen, Britain's third largest electricity generator, is to pay £534m ($886m) to BHP, Lasmo and Monument Oil and Gas to escape from expensive long-term gas supply contracts.

The generator has agreed to pay the sum to the outstanding owners of the Liverpool Bay gas and oil field in exchange for lower gas prices to its Connah's Quay power station in north Wales.

PowerGen said the changes should reduce its annual operating costs by more than £60m from 1999, lifting earnings per share next year by about 3.5p.

Connah's Quay supplies about 20 per cent of PowerGen's annual output. The 1450MW power station is thought to have been paying about 24p a therm for gas under supply contracts negotiated in 1993. This compares with current medium term gas prices of about 15p a therm.

The contracts represent about 55 per cent of the group's portfolio of long term contracts.

Last month the generator announced the sale for £248m of its offshore oil and gas interests including its stake in the Liverpool Bay field to Centrica, which trades as British Gas. As part of the deal, Centrica agreed to cut its gas supply prices to Connah's Quay.

Peter Hickson, PowerGen's finance director, said: "We have now renegotiated some 80 per cent of our gas contracts closer to current market prices. This will deliver significant value to our shareholders and enable us to compete more effectively in energy markets."

The deal will be financed from existing debt facilities and treated as an exceptional cost in PowerGen's accounts for the nine-month period to December 1998, said Mr Hickson.

Some £117m of the £534m payment will be deferred for a year. The company will also receive tax credits as a result of the deal, expected to total £160m next year.

RICHARD DONKIN

Risks and rewards

Job security is no longer a priority for executives, research shows. Bonuses and benefits are the issues of the future

Are executives becoming hardened to the realities of their corporate tenure? There is evidence in two reports this week to suggest that not only executives but also the rest of us are coming to terms with changes in the workplace.

The first report comes from Odgers International, the headhunting firm, which looked at how 368 senior executives aged between 40 and 45 perceived their job prospects.* Persistent predictions of an impending recession and recent announcements of job cuts had failed to dent their confidence. No more than 5 per cent of them felt less secure about their future as a result of the pessimistic outlook of many businesses.

Job security is no longer highly valued by these people, many of whom would have been affected by the last recession. Only 15 per cent said security was the most important factor when accepting a new job. Job satisfaction was the most important factor when considering a new position, followed by increased responsibility and pay.

Pay never seems to be the uppermost consideration in such surveys. It is as if executives prefer not mention it. In fact it was not even listed by Odgers when it asked respondents to choose from a list of reasons why a specific company might appeal to them. The most popular choice was "the opportunity to work with people I like" followed closely by companies with an "open and motivated culture".

Only 15 per cent said job security was the most important factor

The possibility of earning whacking great bonuses and long-term incentive schemes obviously have nothing to do with it. I wonder, however, whether there is a relationship between pay and increased executive confidence.

Some executives I have met seemed assured, not because they believed their job would last them into retirement, but because they felt their pay deal was good enough to provide a safety net should the unthinkable happen. I know of one executive who as soon as he landed a £300,000-a-year directorship took out a £300,000 ($498,000) mortgage on the strength of it. The job was by no means secure but his reasoning went like this: "If I get thrown out of my job tomorrow, I should be assured of a pay-off that will cover my mortgage."

This is the nub of the new contract for senior executives. The job has its risks but rewards are high and the redundancy notice can look like a winning lottery ticket.

This win-or-bust system of executive reward is going to grow in popularity if we are to believe the predictions of chief executives, finance directors and senior personnel managers from 64 of the FTSE 100 companies consulted for the second piece of research, this time carried out by Bacon & Woodrow, actuaries and consultants.** They asked executives to make some predictions about working life in 20 years.

Directors' bonuses, they forecast, will grow as a percentage of salary with many more chief executives doubling their basic salaries with their bonus payments.

More employees, they believe, will own shares in their companies, more will have longer holidays and more will retire earlier.

There will be a big rise, say the executives, in flexible working. They expect about three-quarters of UK employees to be on flexible contracts 20 years hence, compared with 10 per cent today. In spite of this, companies expect that they will begin to offer increasingly sophisticated health and welfare benefits, such as employer-sponsored long-term care insurance and osteopathy and optical insurance. Support for older and younger dependents of employees is also expected to increase while other benefits such as company cars will be on the way out.

There seems to be a contradiction here. On the one hand executives are expecting less secure, performance-driven contracts, while on the other hand they have a vision of corporates as social havens for employees and their families.

But Richard Greenhill, a partner in Bacon & Woodrow's pay and benefits group, does not see it like that. "These benefits are not there because the company wants to be nice. They are a recognition that companies will have to match the needs of their employees if they are going to attract and keep people," he says.

We will have to wait and see.

**Bacon & Woodrow's 2020 Vision survey is available by calling Deborah Clough, +44 171 716 7250*

***A summary of the Odgers research can be obtained from the firm, tel 44 171 499 8811*

Global bonuses

Two new pay reports bring us back to reality. The first comes from Towers Perrin's annual comparison of chief executive pay worldwide, used for the graph reproduced here. The research shows that the size of your bonus depends very much on where in the world you happen to be working.

Italians have the biggest bonuses and the French the smallest

Across companies in all of the European countries in the research chief executives' bonuses are worth between 20 per cent and 30 per cent of their salaries.

The Italians have the biggest bonuses in Europe, worth some 30 per cent of their basic pay and the French have the smallest, worth about 19 per cent of their basic pay. These compare with the 39 per cent of basic US bonus and the 78 per cent bonus awarded to Venezuelans.

The rhetoric of harmonised pay structures in Europe has not been matched by reality. Perhaps, in time, the euro will make a difference. In the meantime pay continues to vary.

The use of long-term incentives, including share options, is a case in point. They are almost unheard of in Spain and Sweden whereas in the US they are worth some 97 per cent of a chief executive's basic pay. In France, the Netherlands and the UK, these incentives are worth some 38 per cent of basic pay.

How times have changed. Just for fun, in its 20th annual report on UK board earnings in industrial and commercial companies, the Monks Partnership, pay information specialists, has looked back at boardroom pay in 1977. In that year the chairman of GEC, for example, earned £40,000 and the chairman of Tesco earned £25,000.

Monks has produced two board earnings reports, one for industrial and commercial companies and one for finance and property companies. The reports identify 19 directors who earned more than £1m in the UK last year. The list should really feature 20 posts but changes at the top of British Sky Broadcasting have complicated the analysis.

UK Board Earnings – Industrial and Commercial, £295, Finance and Property, £225, tel + 44 1799 542222, fax: 44 1799 541805

Towers Perrin: +44 171 872 0433

richard.donkin@ft.com

Posts earning over £1m

£'000

Company	Position	Base Salary	Annual incentive	Total earnings
[illegible]	Chairman (66)	338	2,134	2,472
[illegible]	Chief exec./ managing director	615	562	1,177
[illegible]	Non-exec. director	318	1,125	1,443
[illegible]	Chief exec.	618	488	1,106
Cable & Wireless	Chief exec.	693	367	1,060
[illegible] Group	Chief exec.	272	750	1,022
[illegible]	[illegible] manager	171	900	1,071
Glaxo Wellcome	Chairman	875	826	1,701
	Chief exec.	495	595	1,090
[illegible]	Managing director	416	850	1,266
	Development director	180	850	1,030
[illegible]	Chief exec.	665	680	1,345
[illegible] Holdings	Chief exec./chairman	500	500	1,000
[illegible]	Chief exec.	631	588	1,119
[illegible]	Chief exec.	840	526	1,369
Schroders	Deputy chairman	175	1,258	1,433
SmithKline Beecham	Chief exec.	[illegible]	1,564	2,398
Standard Chartered	Group chief exec.	455	684	1,139
[illegible]	Chairman	675	432	1,107
[illegible]	Chairman	[illegible]	434	1,314
WPP Group	Chief exec.	717	609	1,326

Source: Towers Perrin [illegible]

BANKING FINANCE & GENERAL APPOINTMENTS

WARWICK BUSINESS SCHOOL

Appointment of Dean of Warwick Business School

The University of Warwick is seeking to appoint a Dean to lead the Warwick Business School into the next millennium.

Warwick Business School has 170 academic and research staff and the School's funded research programme has an annual income of £3m.

The School offers a one year full-time MBA and an Executive MBA offering the flexibility of modular, distance learning and evening study with a total of some 2,000 students. All delivery mechanisms have AMBA accreditation, and the School is a member of the foremost global MBA consortium PIM (Programme for International Management). Additionally there are six specialist masters programmes, and a doctoral programme that has produced 50 dissertations in the past twelve months. There is a growing Executive Short Course Programme developed in partnership with a range of leading companies.

The School's undergraduate programmes (totalling some 600 students) attract students of the highest quality from the UK and overseas, and the graduates are much sought after.

The Dean will be expected to develop and implement a clear vision for the future of the School and to command the support of staff. Candidates must have a record of achievement in research and education commensurate with the requirements of a professorship at Warwick, and are likely to be either senior business school academics or to have combined an academic career with success in business or the public sector.

The appointment will be to a permanent professorship in the School, and to the post of Dean for five years with the possibility of a further period subject to the University's normal procedures for appointing heads of schools.

Further details online from jobs.ac.uk/10/AC362.html

Further particulars may be obtained from the Personnel Office, University of Warwick, Coventry CV4 7AL (Tel. 01203-523627), quoting reference 19/2A/98. Informal enquiries may be made to the Vice-Chancellor, Sir Brian Follett, Chair of the Search Committee (01203-523630) or to the current Dean of the School, Professor Robert Dyson (01203-523775, e-mail: R.G.Dyson@warwick.ac.uk).

Closing date for applications is 30 January 1998.

THE UNIVERSITY OF WARWICK

AUSTRALIA'S BEST BANK... WANTS TO RECRUIT MORE OF THE WORLD'S BEST EQUITY DERIVATIVES & TREASURY PEOPLE

Macquarie Bank is Australia's leading investment bank and is one of the top 50 companies listed on the Australian Stock Exchange.

Macquarie Bank is the only substantial Australian-owned investment bank with over 3000 employees and around 1e offices world-wide. In difficult global financial markets, we continue to show increasing levels of profitability and an outstanding return on equity. We are still experiencing significant levels of business growth, capitalising on opportunities domestically and - increasingly - globally. As a result, we are seeking to appoint a number of experienced equity and treasury traders and structurers to our operations in Australia, Hong Kong and South Africa.

In particular, we are seeking to recruit the following people:

HEAD OF EQUITIES TRADING, SOUTH AFRICA
Location: Johannesburg

Macquarie Bank's long standing relationship with Standard Corporate and Merchant Bank of South Africa includes an equity derivatives joint venture. This arrangement has an initial term of five years and we are now seeking a first-rate equity derivatives trader to head the trading operation.

Applicants should be able to demonstrate a successful trading history, with a track record of consistent profitability over a number of years. Experience trading equity derivatives is preferred, but traders with experience in interest rate or currency markets, who feel their talents are of the highest calibre, may also apply. The successful applicant will be required to manage a team of highly talented traders, so requisite management skills will also be required.

HEAD OF EQUITIES TRADING, ASIAN MARKETS
Location: Hong Kong

Macquarie's Hong Kong office deals in both HK and Japanese securities and we are seeking an experienced equity derivatives trader to head the trading operation. Interested applicants should have relevant experience in, and a good understanding of, a broad range of equity derivative products. You must also have a proven track record of income production and the capability to manage a trading team. Experience with automated trading systems would be an advantage.

EQUITY DERIVATIVES TRADERS
Location: Australia, Hong Kong and South Africa

Given the rapid expansion of our global trading operations, we are keen to recruit experienced equity derivative traders for Australia, Hong Kong and South Africa. We are seeking intelligent, ambitious and highly motivated people who have had successful careers to date trading volatility-based equity positions. It is important that you can lead from the front, be a key income producer for the team and effectively develop more junior traders. Excellent computer skills are essential.

CONVERTIBLE TRADERS - JAPANESE SECURITIES
Location: Hong Kong

We are seeking experienced convertible bond and equity derivatives traders for the Japanese market. Applicants will be team players and should have 3-5 years' experience in trading Japanese CBs and/or other Japanese equity derivative products. A track record of income production is essential. Preference will be given to candidates who have fluent communication skills (both written and oral) in English as well as Japanese.

EQUITY STRUCTURING
Location: Sydney, Hong Kong and Japan

We are seeking outstanding people for this role. You will be involved in the origination of equity derivative transactions with institutional and corporate clients, the structuring and issuance of listed derivatives and/or development of retail investment products.

Ideal candidates will be highly numerate, have a sound understanding of derivatives and have experience in structuring OTC deals and listed products. For these roles you must have significant commercial acumen and a track record of successfully bringing your ideas to the market.

TREASURY / COMMODITIES BUSINESS DEVELOPERS
Location: Asia

We are interested in recruiting individuals (or small teams) who are eager to pursue business opportunities in the Asian market. We can be flexible on your product or business idea, but seek driven business managers who have commercial and financial acumen and a track record of successfully implementing new ideas. We would consider, for example, small proprietary trading teams or people with well thought out business plans for making money in the Asian markets.

In addition to these positions, a European equities trading operation is currently under consideration and will most likely be based in either London or Germany. If you are interested in such an opportunity, we would be keen to hear from you.

You may be an Australian citizen, or from any international background. Regardless of your nationality, we are particularly interested in talented traders, structurers and business generators who possess strong intellect, excellent judgement, drive and entrepreneurial ability.

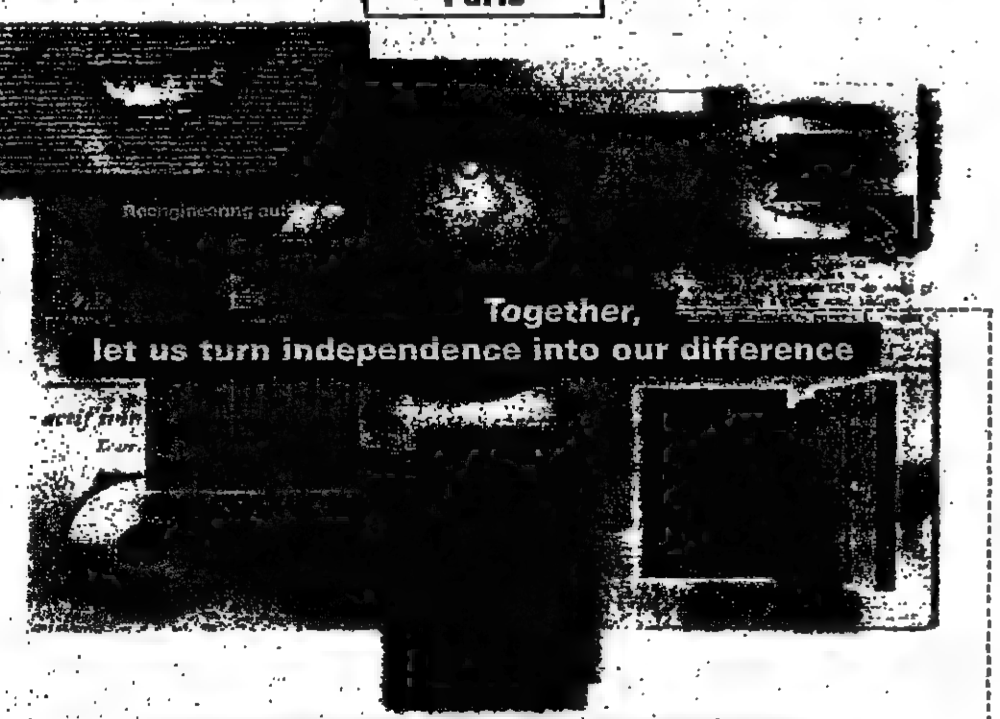
This is an outstanding opportunity to join an organisation which offers commitment to its staff, substantial rewards for performance, a dynamic team environment and excellent career potential.

If you are interested in applying and you seek further information, in the first instance please contact:
Christine Hayward: Division Director, Recruitment
Tel: (612) 9237 3333 Fax (612) 9237 4544
email: chayward@macquarie.com.au
or visit our website at http://www.macquarie.com.au
Mailing address: Macquarie Bank Limited, PO Box H68, Australia Square, Sydney, NSW 1210 AUSTRALIA.

ASK MACQUARIE

MACQUARIE

Paris



International Supervisors and Managers

Worldwide practice and independence

Every day, 80,000 employees in our worldwide firm, present in 130 countries, are tuned to our clients' needs.
Our independence means we can guarantee the total objectivity and integrity of our business.
We are looking for highly motivated individuals and high calibre professionals who want to become part of an extremely fast growing professional services company in France. Our growth is further augmented by a substantial array of specialist services that we provide to audit and non-audit clients.

Your role

- *Co-ordination of international audit and special* assignments, both in France and abroad.
- **Management** of multi-lingual, multi-skilled client service teams.
- **Significant exposure** to top client management.
- **Special projects:** we are continually involved in special assignments in France and overseas (acquisitions, financial reporting...), your role will involve immediate hands-on responsibility.
- **Best practices:** we are constantly seeking to benchmark our clients and our own performances: you will need to seek out and implement best practice within Deloitte & Touche worldwide and beyond.

Your qualifications

- Record of success with a leading accountancy firm.
- Ability to think strategically to create and implement business solutions.
- Excellent academic background: first time ACA passes and/or MBA.
- Fluency in both written and spoken French. Third European language preferred.
- International outlook with demonstrated ability to work with and manage people of different cultures and backgrounds.
- Strong knowledge of international and US GAAP essential.
- 5-12 years experience in public accounting and/or industry.

Your opportunity

We provide highly competitive salary and benefits packages. Career prospects within our dynamic and service-focused firm are excellent. A wide variety of worldwide career opportunities exist for outstanding individuals.

Interested applicants should fax their CV's in either English or French to Valérie Lacroux quoting reference FT0812 to + 33 1 40 88 28 28 or write to her at Deloitte Touche Tohmatsu, 185 avenue Charles-de-Gaulle, 92200 Neuilly-sur-Seine, France. e-mail: Competences@deloitte.fr

Deloitte Touche Tohmatsu

Speculate and accumulate.

Accountancy Appointments every Thursday in the FT.
Includes Tax Specialists, Analysts and Finance Directors.
For more information on advertising opportunities please call:
Tel: +44 171 873 3351 Fax: +44 171 873 4331

WELLINGTON MANAGEMENT

Investment Management New Business Development

Wellington Management Company, LLP, based in Boston, is one of the largest independent investment management firms in the world, tracing its origins to 1928. Our exclusive focus is on the investment of portfolios for institutional clients. Today, the firm manages total assets of $200 billion for clients in 33 countries.

Wellington Management International is regulated by IMRO.

Wellington Management International wishes to appoint an additional business development officer to join its London-based European team.

This person will be primarily responsible for the further development of Wellington Management's business with institutional clients in Italy, Spain and Portugal, and will be part of a small and highly motivated team. In addition, the person will be actively involved in developing a number of other European markets.

It is essential that candidates be fluent in Italian and Spanish and have a thorough grounding in the marketing of investment services to institutional investors.

This represents an excellent opportunity to join an established business development team at a highly regarded, global investment management company.

Please send your curriculum vitae to:

Sarah Lloyd, Wellington Management International
Stratton House, Stratton Street, London W1X 6BN
Fax: 0171 339 8820 E-mail: silloyd@wellmanage.com

Gulfinvest International ksc

Assistant Director
Corporate Finance/Private Equity

"an opportunity for participation in the Company's share option plan"

London/Kuwait **£ excellent**

A promising opportunity for a young, technically adept officer in the corporate finance/private equity department of a young institution. Gulfinvest International ksc is a leading provider of development capital to private companies in the Middle East and North Africa. Since its formation in 1997 it has enjoyed considerable success and now requires an Assistant Director who will report to the Head of Corporate Finance.

The Role:

- Support the Head of Corporate Finance in structuring and executing private equity transactions.
- To carry out financial analysis on companies and property investments.
- Research and evaluate potential investment opportunities.
- *Ability to travel internationally.*

The Candidate:

- 3-5 years experience in structuring and executing private equity transactions.
- Excellent technical financial analysis skills, including a thorough knowledge of financial modelling and financial techniques.
- Good investment judgement.
- Location in London or Kuwait, with knowledge of the Middle East emerging markets and Arabic fluency an advantage.

Please write in confidence, with full career and current salary details, quoting reference IT/2915

Tel: 0171 499 8811 Fax: 0171 670 3490
e-mail OsborneC@odgers.com

odgers

Odgers Executive Selection
7 Curzon Street, London W1Y 7FL
A DIVISION OF ODGERS INTERNATIONAL

Investment Banking

Die Bank: Ein bedeutendes, erstklassiges Kreditinstitut öffentlich-rechtlicher Prägung mit Universal-Produktpalette und Stützpunkten an allen bedeutenden Finanzplätzen der Welt. Im Rahmen des weiteren Ausbaues des Kapitalmarkt-Geschäftes möchte die Bank ihr Investment-Banking-Team verstärken. Wir suchen für diese erste norddeutsche Bankadresse erfahrene Persönlichkeiten, aber auch Mitarbeiter mit ersten vertieften Kenntnissen in den angesprochenen Bereichen, die in diesen Aufgaben eine Chance zur Realisierung ihrer Berufsziele sehen:

Institutional Sales

Die Aufgaben: Akquisition, Betreuung und Beratung nationaler oder internationaler Anleger in einer breiten Multiprodukt-Sales- bzw. für das Inland eher Domestic/zinslastigen Angebotspalette einschließlich der jeweiligen Derivate.

Die Anforderungen: Mehrjährige Erfahrung im Zins- und/oder Aktiengeschäft, solides volkswirtschaftliches und Kapitalmarktwissen, ausgeprägte Sales/Vertriebsorientierung und Beratungsstärke und gute Englischkenntnisse.

Unsere Projekte: TNV (Sales Inland) bzw. TNA Sales International)

Firmenkundenbetreuer Kapitalmarkt

Die Aufgaben: Beratung und Betreuung insbesondere von inländischen Corporates im Bereich Derivate/Zinssicherungsinstrumente sowie der Asset Allocation.

Die Anforderungen: Ca. 3 Jahre Praxis und solides Know-how als Firmenkundenbetreuer in Kapitalmarktprodukten sowie Erfahrung in der Bilanzanalyse und gute Englischkenntnisse, ggf. auch als Depot-A-Manager oder Treasurer.

Unser Projekt: TNF

Senior Trader FX-Optionen

Die Aufgaben: Professionelle Führung eines Multi-currency Optionsbuches, insbesondere in den Haupthandelswährungen.

Die Anforderungen: Mehrere Jahre FX-Handelserfahrung insbesondere im Optionssegment der bedeutenden Welt-Währungen. Routine im Umgang mit FX-Derivaten, Teamorientierung sowie Englischkenntnisse, ggf. erste Führungserfahrungen.

Unser Projekt: TNX

Geldhändler

Die Aufgaben: Interbankenhandel im Laufzeitenbereich bis zwei Jahre mit Schwerpunkt in DM einschließlich der zugehörigen Derivate, ferner Unterstützung der Geldmarkttreasury bei der A/P-Steuerung.

Die Anforderungen: Bankausbildung, ggf. berufsspezifische Weiterbildung (Bankakademie), mindestens drei bis vier Jahre Erfahrung und Erfolge im Geldhandel, Routine im Umgang mit Geldmarktderivaten, kaufmännisches Geschick, Teamorientierung sowie gute Englischkenntnisse.

Unser Projekt: TNF

Das Angebot: Wir wenden uns an Kandidaten die bei entsprechender Qualifikation die Chance haben, sich beruflich weiterzuentwickeln. Die mit dem Ausbau des Investment Banking dieser soliden Adresse einhergehenden beruflichen und persönlichen Herausforderungen und Chancen, verbunden mit einem sicheren Arbeitsplatz, sollten im Vordergrund der Überlegungen stehen. Die Positionen sind angemessen ausgestattet und bieten überdurchschnittliche Sozialleistungen.

Ihre Kontakte: Herr Thomas E. Schäller unter +49 6172 490414 und Herr Matthias Junges unter +496172 490412 im Büro. Senden Sie uns Ihre Unterlagen bzw. Ihre Vita, auch per e-mail an SJP-Team@t-online.de. Wir senden Ihnen dann gerne die gewünschte Unternehmens- und Positionsbeschreibung. Diskretion ist selbstverständlich.

Stephan, Junges & Partner GmbH

Norsk-Data-Str. 3 · D-61352 Bad Homburg **Phone +49 6172 4904-0 / Fax +49 6172 4904-40**

Banking · Insurance · EDP
Property · Financial Services
Internet: http://www.sj-partner.com

London · Frankfurt · Paris

WELL ESTABLISHED EUROPEAN BANK SEEKS

BUSINESS DEVELOPMENT MANAGER

The bank requires a highly motivated and talented professional with at least 10 years experience in a similar environment, to lead a small, but aggressive marketing team to consolidate and expand the existing corporate strategy.

Reporting to the chief manager the ideal candidate will propose and execute marketing strategies and initiatives to promote the bank's products and services, finalize and maintain business relations with new and existing customers, liaising with the other departments of the bank.

Competitive salary and benefits according to experience.

Apply to Box A6322, Financial Times, One Southwark Bridge, London, SE1 9HL

EUROPEAN CENTRAL BANK

VACANCIES IN THE EUROPEAN CENTRAL BANK

The European Central Bank (ECB), established in Frankfurt am Main on 1 June 1998, is urgently seeking to fill the following vacancies. The ECB has its own terms and conditions of employment, including a competitive salary structure, retirement plan, health insurance and relocation benefits. Candidates must be a national of a Member State of the European Union.

SECURITY EXPERT IN THE DIRECTORATE FOR BANKNOTES

The holder of this position, which is offered on a fixed-term contract basis, will be responsible, under the supervision of the Head of the Directorate Banknotes, for planning, implementing and managing a common security system for the production, handling and transportation of the euro banknotes. This system will involve the ECB, the National Central Banks (NCBs), the printing works, the paper mills and the other suppliers. The establishment of a documentation process for this system and its management will form part of the duties involved. Security inspections at the premises of suppliers of banknote components are also envisaged. The person will also have to deal with all security related matters in the Directorate Banknotes in co-operation with the security services of the ECB.

The successful candidate would be integrated into a small team composed of experts in banknote production or in banknote issue. The specifications for the security system will be prepared in co-operation with these experts, and the responsible bodies in the different NCBs/manufacturing sites. The proposed system will be based on existing security standards.

Qualifications

- Practical experience in security management in banknote manufacturing sites and in security transportation.
- Ability to work as part of a team.
- Practical experience in working in a PC environment, with Microsoft Office.
- Very good command of English and proven drafting ability in English. Working knowledge of at least one other European Union language is required and knowledge of German is desirable.

Ref: ECB/14/99/FT

PRINCIPAL IN THE DIRECTORATE FOR CONTROLLING AND ORGANISATION

The Controlling and Organisation Directorate of the ECB is, inter alia, responsible for the preparation of the ECB's budget and the monitoring of its execution, for developing and updating its organisational structure and for advising on the effective use of ECB resources.

The holder of this post will assist the Head of Directorate in all aspects of managing the organisational entity, with a strong emphasis on the preparation and monitoring of the ECB Budget and the analysis of the application of funds and resources used by the organisation.

Qualifications

- Several years of experience in a managerial capacity in planning, budgeting, budget-monitoring and accounting matters.
- Advanced university degree with a sound record in finance.
- Good knowledge of English and proven drafting ability in English. Working knowledge of at least one other European Union language is required.
- Familiarity with the Microsoft Office PC software package.

Ref: ECB/23/99/FT

Applications

Applications should include a Curriculum Vitae and a recent photograph together with references confirming the required experience and skills. They should be addressed to the **European Central Bank, Directorate Personnel, Postfach 16 03 19, D-60066 Frankfurt am Main,** and should reach us no later than 31 December 1998. Applications will be treated in the strictest confidence and will not be returned. Please quote the relevant reference number for the position applied for.

These vacancies are also published on the Internet at *http://www.ecb.int, but applications should only be submitted on paper via surface mail.*

EUROPEAN CENTRAL BANK

VACANCIES IN THE EUROPEAN CENTRAL BANK

The European Central Bank (ECB), established in Frankfurt am Main on 1 June 1998, is urgently seeking to fill the following vacancies. The ECB has its own terms and conditions of employment, including a competitive salary structure, retirement plan, health insurance and relocation benefits. Candidates must be a national of a Member State of the European Union.

ECONOMISTS IN THE DIRECTORATE GENERAL FOR ECONOMICS AND THE DIRECTORATE GENERAL FOR RESEARCH

REFERENCE: DG-Economics **ECB/17/99/FT**
DG-Research **ECB/18/99/FT**

The positions are for highly-qualified economists to fill vacancies in the Directorate General - Economics (DG-E) and the Directorate General - Research (DG-R). The main task of the DG-E is to prepare the necessary economic background documentation and analysis required for the conduct of the monetary policy of the European System of Central Banks (ESCB). Expertise is sought, in particular, in the following areas of work: monitoring and analysis of economic developments, fiscal policies, financial markets and banking trends in the euro area, the international economy and individual EU countries; preparing advice on monetary policy strategy and the assessment of the monetary policy stance, as well as on economic policy issues; and conducting background analytical work on all of these issues.

The main tasks of the DG-R are to identify, investigate and conceptualise issues directly relevant to the single monetary policy and to the performance of other functions of the ESCB. It aims at identifying medium term policy options. The fields of research in which expertise is sought are, inter alia, monetary policy strategy, rules and transmission mechanism, financial stability, the development and use of econometric models, the microstructure of money markets and EU goods, labour and financial markets.

Qualifications

- For both DGs, a minimum condition is an advanced post-graduate study in economics (a PhD in economics would be an asset) and a solid foundation in theoretical and applied economics. Additional requirements for DG-E are a sound academic, research and publication record in applied economics, and extensive experience in policy analysis and advice, preferably related to ECB functions. For DG-R, additional requirements are a significant publication record as well as extensive research experience in areas related to ECB functions.
- Candidates should have the appropriate skills and experience in one or more of the respective areas of work mentioned above.
- Good knowledge of English, and an ability to present research findings and address policy issues in non-technical terms. Working knowledge of at least one other European Union language is required.

In the letter of application, candidates are invited to indicate the respective area(s) of work for which they feel they are best qualified.

INFORMATION SYSTEMS AUDITOR IN THE DIRECTORATE INTERNAL AUDIT

The vacancy is for an Information Systems Auditor who, under the supervision of the Director Internal Audit, will be responsible for the auditing of installed systems and IT projects under development. The successful candidate will have experience of application and installation reviews, ideally in UNIX and Windows NT environments. He/she will be familiar with client/server environment, networks and will have good experience of SAP, Oracle, Sybase and Internet. He/she will also be familiar with the investigation of systems security.

Qualifications

- Professional experience of between 2 and 5 years as Junior IS Auditor, preferably in the banking sector or as an IS Engineer with financial knowledge. Examined CISA would be an advantage.
- Good communication and reporting skills, self-motivation and a sense of initiative.
- Ability to work in a team and under time pressure.
- Practical knowledge of the standard Microsoft Office Automation packages Windows 95/NT and MS Office Professional.
- Very good command of English and proven drafting ability in English. A command of German would be an advantage but a working knowledge of at least one other European Union language is required.

Ref: ECB/13/99/FT

Applications

Applications should include a Curriculum Vitae and a recent photograph together with references confirming the required experience and skills, and - if possible - copies of (published or unpublished) papers or notes prepared by candidates. They should be addressed to the **European Central Bank, Directorate Personnel, Postfach 16 03 19, D-60066 Frankfurt am Main,** and should reach us no later than 31 December 1998. Applications will be treated in the strictest confidence and will not be returned. Please quote the relevant reference number(s) for the position(s) applied for.

Williams de Broë

Williams de Broë is an integrated securities house with a thriving fund management business operating principally within the private client market. Due to the success of our activities, an opportunity has arisen within our city office that would suit a recent graduate with a finance related degree.

We would expect applicants to be able to demonstrate their understanding of economics and be able to prove their interest in global financial markets. The candidate will already be familiar with computer applications such as Excel and Word.

Please send your application and CV for the attention of Stuart Fraser, *Williams de Broë*, 6 Broadgate, London EC2M 2 RP or fax 0171-588-1702.

BOND AND PROPERTY PORTFOLIO MANAGER-CENTRAL LONDON

UK subsidiary of South African financial and property services group requires dynamic individual with reasonable Afrikaans to manage new department specialising in bond portfolio management for South African clients and the marketing of Group investment and property portfolio in the UK; degree essential; MBA/MSc in Finance *preferred;* MSTA or CMT qualification required together with knowledge and experience of South African stock market exchange control regulations, tax and financial system; working knowledge and experience of South African property market required: excellent career prospects for motivated individual.

Interested candidates should write in confidence to Mr Gregory at PO Box 3242 Wokingham, Berkshire RG41 3XZ

Position available.

To advertise your appointments in the FT please call:
Tel: +44 171 873 3351 Fax: +44 171 873 4331

RISK PROFESSIONALS

GENSEC ASSET MANAGEMENT (GenAM)

Genbel Securities Limited (Gensec) is a leading South African Investment Bank whose business is aimed at creating wealth through innovation and excellence in financial risk management, exploiting market opportunities and providing solutions to our corporate and institutional clients.

Gensec's principal activities comprise of:
- Equities
- Asset management (GenAM)
- Banking
- Property management

Due to extensive growth we are recruiting senior risk professionals for our Cape Town risk function. The risk function at GenAM will be an integral part of the corporate risk management function of Gensec. The GenAM risk function will inter alia report on market risk (both absolute and relative) and the credit risk of individual portfolios as well as combinations of portfolios.

While the GenAM function is part of the corporate risk management function, it will interact extensively with GenAM senior management, portfolio managers and sales people.

The successful candidate will be a qualified CA or Msc (Maths & Stats), have at least 4 years market experience and at least 2 years risk management experience. Experience with techniques such as Value at Risk, Stress Testing, Scenario Analysis and Sensitivity Analysis is essential. Experience with portfolio management tools such as Barra is highly desirable.

If you are interested in talking to us please contact Natalie May at Gensec:

Tel: 027 11 280 1000
Email: nataliem@gensec.com
Visit our website: www.gensec.com

GENSEC
A member of the Sanlam Group

---

c. £100,000 — *Global Fund Management* — *London*

European Equity Sector Analysts

This leading European Bancassurance Group has over US$50 billion assets under management and a strong performance record. The firm is aggressively expanding its fund management capabilities and has a well-established European Portfolio Management Team investing in the UK and Continent. There is a strong commitment to building sector research which has created opportunities to cover Consumer Goods and Financial Services.

THE ROLE
- Reporting to the Chief Investment Officer, European Equities, with direct responsibility for specific sector research, covering either Consumer Goods or Financial Services.
- Undertake extensive research and analysis of corporate investment opportunities.
- Develop appropriate valuation methodologies to be applied within a well-defined investment decision making process.

THE QUALIFICATIONS
- Mature graduate with at least five years' experience of buy or sell side research. Sector knowledge is essential. CFA or similar financial qualification desirable.
- Strong analytical skills, highly motivated and intellectually robust. Need to be able to think independently and contribute to, and actively enjoy, team discussion and debate on investment ideas.
- Must be able to operate effectively in a collegiate environment, with stature and presence to win credibility with internal peers.

Leeds 0113 230 7774
London 0171 298 3333
Manchester 0161 499 6700

Selector Europe
Spencer Stuart

Please reply with full details to: Selector Europe, Ref. 96F/28818-1/12B, 16 Connaught Place, London W2 2ED

---

custody
clearing
settlement

Design the future. Straight through.

www.capitalmarketscompany.com

EUROPEAN CENTRAL BANK

VACANCY IN THE EUROPEAN CENTRAL BANK

TRANSLATOR IN THE DIRECTORATE FOR EXTERNAL RELATIONS

The European Central Bank (ECB), established in Frankfurt am Main on 1 June 1998, is urgently seeking a translator for its Directorate for External Relations. The position is offered on a fixed-term contract basis. The ECB has its own terms and conditions of employment, including a competitive salary structure, retirement plan, health insurance and relocation benefits. Candidates must be a national of a Member State of the European Union.

This vacancy is for a translator of English mother tongue whose duties will include the translation of texts from French and German into English and the editing of texts in English.

Qualifications
- Honours university degree in French and German. A postgraduate diploma in translation would be an advantage.
- A perfect command of English and excellent French and German. A knowledge of other European languages would be an advantage.
- Several years' professional translation experience, preferably in the economic or financial field.
- A sound background knowledge of financial, economic and legal affairs.
- PC skills.

Ref: ECB/01/99/FT

Applications

Applications should include a Curriculum Vitae and a recent photograph, together with references confirming the required experience and skills. They should quote the reference number and should be addressed to the European Central Bank, Directorate Personnel, Postfach 16 03 19, D-60066 Frankfurt am Main, and should reach us no later than 29 January 1999. Applications will be treated in the strictest confidence and will not be returned.

This vacancy is also published on the Internet at http//www.ecb.int, but applications should only be submitted on paper via surface mail.

OPPORTUNITIES IN ASSET MANAGEMENT

Competitive packages — **GENEVA**

Our client is a Swiss privately-owned bank headquartered in Geneva. The bank is one of the largest private banks in Switzerland and maintains a significant international network. With a strong balance sheet and sound financial standing, our client has an outstanding reputation in private client and institutional asset management, for its sophisticated products and value-added banking services. The business consists of both traditional and hedge fund management, both of which have been extremely successful. The dynamism of the business has resulted in the need for two newly created positions. Appointees in these positions will enable our client to leverage its existing product knowledge through the creation of new, external third party distribution channels globally with the addition of new products.

HEAD OF PRODUCT DEVELOPMENT
- Structure, document and administer products.
- Ensure legal compliance, select jurisdictions, manage registrations, filings and reporting.
- Handle ongoing administration.
- Minimum of 5 years' experience in similar role.
- Knowledgeable about the business, legal and reporting requirements.
- Detail-oriented, be market aware and comfortable structuring new products.
- Strong managerial skills.

Ref: 6577B/04

HEAD OF SELLING
- Manage internal and external relationships for third party and direct distribution.
- Focus will be initially on Europe, latterly to build a team of salespeople for global coverage.
- Minimum of 5 years' experience in similar role.
- Strong track record of wholesaling products and selling funds, managing a salesforce.
- Proven capability in building third party distribution network across Europe.

Ref: 6577A/04

Please send your CV with current salary details to: Sally Rowley-Williams, K/F Selection, 252 Regent Street, London W1R 6HL, quoting the appropriate reference.

Alternatively send by fax on 0171-312 3380 or by e-mail to kfs-london@kornferry.com
Internet Home Page: http//www.kfselection.com

K/F SELECTION
A DIVISION OF KORN/FERRY INTERNATIONAL

Speculate and accumulate.

For more information please call:
Tel: +44 171 873 3351
Fax: +44 171 873 4331

STANDARD & POOR'S

Standard & Poor's MarketScope, is the leading provider of live news, views and analysis on the international equity markets.

We are currently looking to significantly expand our London based teams of Analysts and Journalists.

ANALYSTS

As part of our companies and sectors team you will be expected to produce analysis on listed European companies ranging from in-depth, independent reports on individual stocks to quick-fire reactions to market events. You will also be expected to contribute to broader strategic studies.

An understanding of Cash Flow and Economic Profit modelling is important, as is an appreciation of local and sectoral business issues depending on your speciality. For Sector Analysts, we are particularly interested in applicants with experience in the following areas: Oils/Autos/ Pharmaceuticals/ Banks/ Insurance/Telecoms/Engineering. You are also likely to be fluent in an appropriate European language as well as having a good understanding of business English.

JOURNALISTS

You will be responsible for developing and supporting country-based coverage of the continental European stock markets as part of our respected newswire team.

A background in financial or business journalism is essential with the proven ability to work with accuracy and flexibility to very tight deadlines. As well as good written English skills, you will be fluent in at least one other European language. We are particularly interested in candidates who can speak Nordic languages, or one of the following combinations: Spanish/Portuguese and Italian/German.

We offer challenging career paths and an attractive remuneration package.

Please write with a full CV to: Angela D'Amico, Standard & Poor's MarketScope.
14 Ryder Street, St James's, London SW1Y 6QB

A Division of The McGraw-Hill Companies

PRICEWATERHOUSECOOPERS

SENIOR AUDIT MANAGER BANKING

Assurance and Business Advisory Services

PricewaterhouseCoopers LLP is the largest professional services firm providing Assurance and Business Advisory Services to the banking industry. A variety of positive factors have created significant growth in this practice area. The Firm is seeking to fill the position of Senior Audit Manager-Banking with an exceptional CA/CPA or equivalent who demonstrates the skills and aspirations necessary to be a PricewaterhouseCoopers partner.

The ideal candidate is a strong team player and will have significant knowledge of financial institution auditing and banking in particular. Experience in the areas of risk management, treasury operations, and finance gained through a number of years in public practice, or in combination at a bank or related institution, is essential.

The successful candidate will provide leadership in assurance engagements at major banking clients and in significant business advisory projects. He or she will also provide direction to the management of the Firm's banking practice. Those interested should please call or fax their resume in strict confidence to: HARVEY ROSENTHAL.

TREAT & ASSOCIATES
EXECUTIVE RECRUITERS
SCOTIA PLAZA, Suite 4900, 40 King St., W., Toronto, Ontario M5H 4A2
Bus: (416)777-6679 — Fax: (416) 366-8759

Account Manager

An opportunity has arisen within ScotiaMocatta London – the specialised Metals Division of The Bank of Nova Scotia – to work with the existing Bullion Marketing team. This will involve the detailed analysis of credit proposals for a variety of industrial lending situations, cash flow analysis and annual reviews together with handling associated documentation.

We are looking for a self motivated graduate (or equivalent) possessing at least 5 years banking experience. Fluency in a second European language would be an advantage.

An attractive compensation package commensurate with experience will be offered to the successful candidate.

In the first instance, please send full personal and career details to Gillian Harris, Assistant General Manager – Human Resources, The Bank of Nova Scotia, 33 Finsbury Square, London EC2A 1BB.

(No agencies)

Scotiabank

Recruitment Consultants Directory

Wednesday January 20

Corporate advertising can help differentiate your brand from your competitors.

In today's competitive environment every tool for winning market share is vital. Contact:

Ben Bonney-James
on 0171 873 4015

FINANCIAL TIMES
No FT, no comment.

EQUITY SALES AND TRADING

Junior Analyst/Sales Support — London

An oppportunity has arisen, at a leading US Investment Bank based at Canary Wharf, for a Junior Analyst/Sales Support to join the Equity Sales and Trading team.

Responsibilities will include research for the group's publications which focus on economic, political, and corporate events in Western and Eastern European markets. The position will develop into a full sales, trading or research analyst role.

A recent graduate, the successful candidate should not only be intelligent, hardworking, highly motivated and very energetic, but also willing to make a serious commitment to the rigorous 'hands-on' training programme run by the Equity Sales and Trading team. Proficiency in Microsoft Office products is essential.

A competitive salary and benefits package is offered. Interested candidates should send their details to:

The Financial Times Limited
1 Southwark Bridge, London SE1 9HL
P O Box No. 6259

FINANCIAL ACCOUNTANT

Controller Revisor speaks English, German, Spanish is looking for new project or permanent assignment in Europe or Overseas.

Phone in Germany:
00 49 6131 250330

Credit Derivatives

broker actively seeks self-motivated individual to head a team

experience.

Project Finance Analysts

Swindon £Negotiable

National Power is one of the world's leading power companies with activities throughout the UK and around the world.

As a consequence of an increase in international deal flow, vacancies have arisen at Project Finance Analyst level in the Project Finance Group.

These positions will be based in Swindon and will involve frequent trips to London and occasional international travel. The Project Finance Group is responsible for economic and risk analysis of investment opportunities (including acquisitions) as well as the structuring and closing of debt financing for international projects.

Job Specifications and Responsibilities

The successful applicants will provide analytical support to Project Finance Team Leaders and Project Managers responsible for evaluating international investment opportunities. Specific responsibilities will include:

- Cashflow modelling
- working with project team members to analyse and allocate risks within projects
- developing financing structures for new build and acquisition opportunities
- interface with all functions supporting international project development
- interface with other professionals within Group Treasury.

Person Specification

Applicants should possess first class financial modelling skills and be familiar with the preparation of presentations. Strong interpersonal skills are required as the job will *involve contact with third-party bank advisors as well as others throughout* the company.

A knowledge of economics and/or accounting and a quantitative background as well as the ability to operate in a flexible and team-oriented environment is essential.

The starting salary will be negotiable dependent on experience and ability.

Please write enclosing full CV including salary details to Jane Fenton, Corporate Human Resources, National Power plc, Windmill Hill Business Park, Whitehill Way, Swindon, Wiltshire SN5 6PB.

National Power is an equal opportunities employer and welcomes applications from men and women including ethnic minorities and people with disabilities.

Visit our Web Site: www.nationalpower.com

National Power

APPOINTMENTS WANTED

NY based commodity & financial trader with broad background in physicals & derivatives and extensive experience and relationships in emerging mkts seeks employment or representation agreement. Can travel or relocate. French/English speaking. Phone 212 397 3304

TECHNICAL ANALYST

- MSTA qualified
- 2 years experience in FX and Equities

Contact Shawn smwtudor@compuserve.com

Viatel, Inc., a NASDAQ-traded international facilities-based telecoms company, is experiencing exceptional growth within Europe and the UK. We are looking for a talented Director, M&A to join our London Euro Management team.

Duties include, but are not limited to:

- Identifying and targeting strategic opportunities in communications, such as voice, data and ISP
- Industry research
- Financial Modeling and Analysis
- Preparation of descriptive materials to be presented to senior management and Board of Directors during the decision-making process
- Transaction structuring and negotiation

Director,

Mergers & Aquisitions

Qualified candidate will hold an advanced degree, with mandatory three to five years of relevant experience in management consulting and/or investment banking. Telecoms experience highly desired. Ability to speak French, German, Italian or Spanish desirable. Travel within Europe and abroad required. Remuneration package extremely competitive, including bonus and equity potential.

For immediate consideration, send c.v. and current remuneration package to: Viatel UK Limited, the European HR Director, Knightsbridge House, 197 Knightsbridge, London SW7 1RB.

Viatel GLOBAL COMMUNICATIONS

A fluid approach to international finance

Thames Water is the largest water and wastewater company in the UK, but our scope goes way beyond these shores. Our growing international business now supplies high quality water services to twelve million people from Puerto Rico to China. But we're not just expanding geographically - we expect our financial experts to expand their horizons too. We now have *exciting opportunities for finance professionals to join this progressive blue-chip company.*

Project Finance Opportunities

£Negotiable + car + benefits

Reading & Singapore

Our flourishing Commercial Group is involved in impressive projects from the Millennium Dome in the UK to joint ventures in Adelaide, Australia; whether based in the UK or Singapore, you'll enjoy extensive travel. You'll assess the financial viability of business opportunities from the broadest perspectives, delivering strategic advantage to established timescales and budgets.

With a background in banking or accountancy, preferably qualified, you will have a minimum of three years' relevant Project Finance experience. You will also have the ability to apply your highly developed financial modelling skills in a business environment. In this key business role, commercial *acumen is vital. A second European language* would be an advantage for the UK position and a knowledge of Mandarin for the Singapore position.

Assistant Treasurer

£Negotiable + car + benefits

Reading

You will be preferably ACT qualified, with a Corporate Treasury or Banking background, and familiar with the different financial markets accessed by an international treasury operation.

You will take a leading role in the negotiation of corporate and project loan documentation, export, lease finance and letters of credit. This is a high-profile role requiring excellent negotiating skills. In a fast-moving environment, the ability to juggle several projects at once and the flexibility to travel overseas will make all the difference.

Benefits include an excellent pension scheme and 26 days' holiday, plus superb prospects for the future in a rapidly evolving company. If you are ready for a senior role and a salary to match, send your cv and a covering letter stating current salary details to Louise Drabwell, Personnel Consultant, Thames Water Utilities, Napier Court 4, c/o Nugent House, Vastern Road, Reading, Berks RG2 8DB.

For more information about Thames Water, visit www.thames-water.com

Thames Water

JERSEY FINANCIAL SERVICES COMMISSION

The Jersey Financial Services Commission is the independent body set up to regulate and supervise the finance industry of Jersey. With over £200 billion invested, the finance industry accounts for over 50% of the Island's GDP.

Deputy Director General

The successful postholder will be expected to assist the Director General in the development of financial services regulation - implementing changes and advising the Commission on new developments to match best international regulatory practice.

A self assured innovative person is sought, with well developed analytical skills and preferably a familiarity with investment business or trust administration. The successful candidate, whose experience could be as a practitioner or regulator will have a proven track to record of operating at senior level within a major institution or professional firm.

Outstanding team building skills together with the ability to communicate effectively are essential to this post.

Please apply, in writing, no later than 31st December 1998, with full career and salary details to:

Mrs Sue Holloway
Personnel and Administration Manager
Jersey Financial Services Commission
PO Box 267
Nelson House
David Place
St Helier
Jersey JE4 8TP
Channel Islands

Tel: (+44) (1534) 822033
Fax: (+44) (1534) 822001
E-Mail: info@jerseyfsc.org

UBS

Private Banking wishes to hire a specialist for our Business Area

Active Advisory Team

who is familar with the requirements of our demanding clients and with the international financial markets. We offer tailor-made services to our Private Banking clients with ambitious asset goals.

Within Active Advisory Products we are looking for an

European Equity Specialist

to undertake following key responsibilities:

- Contribute analysis/research on selected European equity markets for Private Banking clients and Investment Advisers and to the Sales force
- Buy-side analysis/research in sell side environment to Private Banking advisory/non-discretionary accounts
- Responsibility for defined/selected European sectors and countries
- Write and deliver of various «Key» products and recommendations

In this function you will be a member of the European Equity Product Specialists Committee (decision taking). We will offer you in a young Business Area a dynamic environment with excellent possibilities for further career development. You will communicate with team members globally and in particular Europe.

Required background:

- In-depth research experience in European Equity Markets
- *Profound, well-founded theoretical know-how of* financial/equity markets/strong financial accounting skills, which have been tested in practice
- University/HWV Degree
- CFA/AZEK Diploma or actively enrolled in the programme
- Good knowledge of following languages: D/E (French is an Asset)
- Flexible/efficient/able to work well under pressure
- Team player
- Communicative, innovative and responsive client to needs

Any Questions will be answered by Jan B. Keller Phone ++41 61 288 67 74. E-Mail: jan_b.keller@ubs.com

Please send your complete application: UBS AG, Human Resources, Fabienne Baschong, Henric Petri-Str. 35, P.O. Box, 4002 Basel, Switzerland

Roche

Senior Internal Auditor

Who we are

As an independent appraisal function within the Swiss based Roche Group, Corporate Audit performs audits at headquarters and in affiliates world-wide. In this way, we assist the organisation to manage its business risks and to improve the efficiency of operations. We are a young and dynamic team that acts in a preventive, supporting, and consulting capacity.

The position

Conduct integrated audits, i.e. stressing operational and IT aspects equally, as a team leader. Advise management regarding appropriate internal controls as well as efficiency and effectiveness of their operations, and thus, add value to the business. Coach and educate team members while furthering your own education, so as to contribute to the high standard of expertise maintained in the department. Based in Basel, the position involves international travel.

Who you are

You have solid academic credentials (university or business college degree) combined with proven business experience in auditing (internal or external) for at least two years. Knowledge of SAP R/3 (and/or BPCS 6.0) would be a strong plus besides proficiency in English and German.

Who to contact

The advertised opening and related career opportunities will be discussed in detail during a personal interview. If the above profile fits your background and experience and you are interested in this challenging position, then please forward your application and curriculum vitae to our Human Resources Department, F. Hoffmann-La Roche Ltd, P.O. Box, CH-4070 Basel, Switzerland, quoting reference: Kg1141. For pre-information, the Head of Corporate Audit, Mr Jean-Claude Froideveaux, is reachable under telephone 0041/61/688 54 21.

debis AirFinance B.V.

Services by DaimlerChrysler

Manager Funding

based at Amsterdam Schiphol Airport, The Netherlands

debis AirFinance B.V., a member of DaimlerChrysler Services (debis), is fast becoming one of the world's leading aircraft finance and leasing companies. With the backing of DaimlerChrysler and major European banks, the company has built up a portfolio of over 80 Airbus, Boeing and Fokker aircraft on lease to 24 airlines in 20 countries, with significant expansion planned. debis AirFinance employs a truly international team - currently comprising 34 people from 8 countries.

The company has the following position available in this dynamic business environment:

Manager Funding

Reporting to the Treasurer and working with a team of highly motivated professionals, you will have responsibility for raising funds.

You will play a key role in implementing our financing strategy including our expansion in the Debt, Capital and Tax markets. As a strong believer in relationship banking, you will also play an important role in ensuring that we continue to enjoy our excellent relationship with our debt providers.

Your principal tasks will range from identifying and evaluating sources of funding appropriate for our business, to structuring and negotiating specific transactions.

A comprehensive knowledge of finance is required, possibly gained in international banking or corporate treasury. Strong communication and negotiation skills are essential while knowledge of the aviation industry would be a distinct advantage.

Please reply with curriculum vitae (including current remuneration details) to Ms. Véronique Stals debis AirFinance B.V. Evert van de Beekstraat 22 1118 CL Amsterdam Schiphol Airport The Netherlands

DON'T WAIT

FOR A JOB TO FIND YOU

SENIOR EXEC. - "I had used JDM twice before, wanting to improve my position I mailed a new campaign on 10/21 - so far 24 calls and 6 offers."

IF YOU ARE:

- ***Motivated by positive results***
- ***Driven to success***
- ***Achievement oriented***

We can help you achieve job search success using the proven power of TARGETED RESUME MAILING.

Using our database of 10M+ you select the companies, executive search or VC firms you want to reach. We will professionally prepare and print your resume, letter and envelope personally addressed to a key exec.

***FREE* Info Packet &**
***FREE* Marketability Analysis**
800-252-0707
E-mail:JDMINTL@compuserve.com

JDM

ACCOUNTANCY APPOINTMENTS

FINANCE DIRECTOR – DESIGNATE

Outstanding Growth - Market Leading Technology Services Plc

Hertfordshire — **c £90,000 + Bonus + Share Options + Benefits**

Our client is one of the UK's leading technology success stories. Founded in 1981, the business has grown dramatically to its current status following a recent flotation as a UK top 250 company with a market capitalisation in excess of £1 billion. Success has been founded on total commitment to client service and delivery, within a rapidly changing marketplace, which our client has consistently led in terms of innovation and growth. Because effective financial management and control are critical for the on-going success of the business, this is viewed as a key appointment and a central part of ambitious strategic plans for the future.

THE POSITION

- As a key player within the senior management team, provide meaningful commercial and financial direction based on both a strategic and detailed knowledge of the business.
- Achieve a full understanding of the true business drivers in order to allocate costs effectively across diverse business streams. Provide an effective framework of financial management and control which will enable further growth and development of the business.
- Lead, manage and review finance teams in order to ensure high levels of motivation and development. Assess existing systems and personnel and plan the future development of the function.
- Manage the provision of statutory accounting, management reporting, planning, budgeting, treasury and working capital control and investment appraisal.

QUALIFICATIONS

- Graduate calibre UK qualified accountant with a strong track record. Evidence of success in a similar role in a medium to large company operating in a multi-location technology, FMCG or distribution based environment.
- The ability to operate at a strategic and a detailed level through effective targeting of managers and staff on key business metrics which drive value and service levels to customers.
- Sound commercial awareness coupled with the vision, intellect and judgement to be able to enhance overall profitability of the UK business.
- The motivation and interpersonal skills necessary to drive the finance function forward and to build effective relationships at all levels within the company. Above all individuals must be adaptable and able to manage change in a dynamic high growth environment.

Interested candidates should write enclosing full career details, current salary and where possible a daytime telephone number to David Head or Andrew Drazin, Technology Division, Questor International, 3 Burlington Gardens, London W1X 1LE. Tel: 0171 292 8300 Fax: 0171 287 5457. e-mail: sarah@questorint.com. Please quote reference 2564.

QI
QUESTOR INTERNATIONAL

Business Analyst

Central London — **c £45,000 + Benefits**

Our client is a worldwide trading and merchandising group specialising in various agricultural and energy commodities, together with petroleum refining and marketing. The company has offices offices around the world and interests in numerous commodity and industrial activities, the group can offer excellent opportunities to progress.

An opening has arisen within the electricity and gas division working closely with their US Business Analyst currently seconded to the United Kingdom. You will provide the vital link between the information and system requirements of the financial department and the development of the solution. This is a front line role and it will be important to build relationships with marketing teams and traders.

Key responsibilities will include:

- Interfacing between the finance function and information systems division.
- Research current and targeted new markets to identify information system requirements.
- Create functional specifications of enhancements which are consistent with existing risk management requirements.
- Develop and execute appropriate testing of the software.
- Implement software and train users.
- Establish and implement procedures and controls to ensure minimum system/human error.

The successful candidate will be educated to degree level, preferably with a recognised accounting qualification and fluency in a second european language.

In addition, spreadsheet skills to macro level and familiarity within a trading or energy environment are desirable.

It will be the Business Analyst's responsibility to understand current and potential activities of the company and translate these into system specifications which will allow programmers to design solutions. It is therefore essential that you have the ability to communicate at all levels and have the drive to succeed in this dynamic and ambitious company.

Interested candidates should send a comprehensive curriculum vitae and covering letter indicating why they feel they are appropriate, to Helen Rolfe, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN or fax on 0171 831 2612. Please quote reference 468630. e-mail: helenrolfe@michaelpage.com

Michael Page
FINANCE
www.michaelpage.com

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

Delivering Quality Solutions

Sleaford — **£ Excellent Package**

Our client requires ambitious highly motivated, self starters to join their expanding training and consulting department. All roles involve assisting new and existing users of their software in achieving rapid and successful implementation of our leading property management and accounting applications. Working as part of a team dedicated to meeting the needs of the broad ranging client base, all roles are based at our Sleaford Offices.

Project Manager

The successful applicant will have extensive experience of managing projects from inception to completion, preferably the selection and implementation of packaged software, but experience with bespoke applications projects will also be useful. The job-holder will be required to work with new and existing clients to ensure their projects are carefully planned and will have regular contact with clients during a project to ensure that plans are followed and implementation is successful.

Consultant

This challenging role requires good business acumen, strong communication skills and a proven record of achievement in a high profile, demanding environment. Involving extensive travel throughout the British Isles, experience in the property industry, accountancy or information technology would be an advantage.

You will have a minimum of two years systems experience, qualified ACA/ACMA would be a benefit.

Interested applicants should write enclosing an up-to-date CV and current salary details to Simon Warner at Michael Page Finance, 4-8 Regent Street, Nottingham NG1 5BQ. Telephone 0115 948 3480 or fax 0115 941 0125. Any CV's sent direct to our client will be forwarded to Michael Page Finance. Please quote reference 464060. e-mail: simonwarner@michaelpage.com

Michael Page
FINANCE
www.michaelpage.com

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

International Commercial Director

Unique Commercial Management Challenge

UK Based — **£ Six figure package**

Our client is a world leader in automotive after-market products. Founded over 50 years ago it enjoys brand dominance in 90 countries, and its continued commitment to Research and Development ensures that its products continue to be household names. Reporting to the Managing Director - International.

The Role:

- Guide the financial and IS performance of the International Division to ensure that the strategic objectives of customer service, quality, innovation and cost optimisation are achieved.
- Treasury management, tax and financial planning across the division, including currency risk management.
- Provide commercially focused management information, support, advice and strategic input to the board for business building and profit enhancement purposes.
- Oversee M&A, IT implementation activities and manage internal and external relationships with auditors and advisors.

The Candidate:

- A high calibre degree educated ACA/ACMA with a minimum of 10 years PQE, gained ideally in U.S. GAAP and FMCG operating environments.
- Brings a proven track record in finance management, M&A, IT, and general management.
- Displays commercial focus, business acumen, a proactive style and superior communication skills.
- Able to engender change and operate in rapidly changing international environments.

Please write in confidence, with full career and current salary details, quoting reference JK/2917

Tel: 0171 499 8811 Fax: 0171 499 6725
e-mail Ellis-JonesR@odgers.com

odgers

Odgers Executive Selection
7 Curzon Street, London W1Y 7FL.

Hays Logistics

Finance Director

Based at Head Office in Veghel, Netherlands — **Competitive Package**

The Position

Reporting to the Managing Director Benelux, your brief as an active member of the management team will be to actively support the consolidation of the company's activities in the Benelux. Key tasks include:

- Integration of a common reporting system
- Optimisation of the available synergies in the administration function within the Benelux
- Directing the finance functions in the Benelux
- Analyse the pre- & post-acquisition reports required in the process of the company's further growth
- Deliver accurate management reporting to Hays plc

Success across the above key areas will result in further recognition within the group.

The Candidate

- Educated to university level (degree in business or accounting) combined with a relevant finance qualification
- A pro-active team-player with proven people management and problem solving skills
- A high level of commercial acumen combined with tenacity and a sense of humour
- A fluency in Dutch and English is essential, a fluency in either or both German and French will be beneficial
- 8-10 years relevant post-qualification experience with ca. 5 years in industry, ideally combined with business-to-business exposure in any industry with a strong cost accounting element

Interested applicants should apply in writing in English, enclosing curriculum vitae, to Ken de Boer at Hays International, Babylon 89, Koningin Julianaplein 30, 2595 AA Den Haag, Netherlands. Alternatively please fax your CV to +31 (0)70 385 7817 or e-mail to: europe@hays-it.demon.nl

Hays International — Hays

Business Finance Manager

North West — **c £50,000 + Benefits**

Our client is a highly successful diverse international manufacturing organisation with a turnover of c£850 million and a market leading position in each of its sectors. With dedicated resources worldwide in production processing, research and development, quality control, logistics and customer service, the company provides global solutions in partnership with its customer base. A key business unit within the group has set itself the objective of developing its strong market position internationally, both organically and by acquisition.

You will report directly to the Business Unit Director with functional responsibility to the European Finance Director. As the Business Finance Manager, acting as the key finance person within a high level team, you will have shared responsibility for translating strategic initiatives, delivering business strategy and business performance targets. The role will have full responsibility for financial management and measurement and will contribute to the implementation of an ERP computer system.

A further key responsibility is for financial leadership of key business projects required to deliver the strategy of the organisation, such as joint ventures, alliances and customer value chain projects.

The successful candidate should be professionally qualified (CIMA, ACA, ACCA). Experience in a process manufacturing industry, with exposure to general management, would be a distinct advantage. A strong credible personality, you will need to be a broad strategic thinker, resourceful and capable, but also practically inclined with a hands-on, 'can-do' approach.

At ease with networking in a multi-discipline matrix structure, you will facilitate change and your focus will ensure results are achieved. You will possess the necessary energy, as well as an influential style to ensure full participation and ownership in decision making.

This role will suit those individuals who are ambitious to pursue a general management career. Some international travel will be a necessary requirement. In return, the group will provide excellent long term career progression.

Interested candidates should send their CV to Martin Hanratty at Michael Page Finance, Clarendon House, 81 Mosley Street, Manchester M2 3LQ. Fax 0161 839 6726, quoting reference 469108. e-mail: martinhanratty@michaelpage.com

Michael Page
FINANCE
www.michaelpage.com

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

Director of Finance & Administration

Central London Law Firm - Starting Package c£50,000

This forward thinking Practice of 50+ people, which has recently moved to larger and modern premises, enjoys an excellent reputation for the quality of its work and is highly profitable. Predominantly through organic growth, the aim is a steady expansion to a 20 partner firm with a total headcount approaching 70.

We are currently looking for a senior member of the management team to replace the existing Director of Finance and Administration and help the Partners oversee the development of the Practice.

Candidates will be young, commercially led qualified accountants. First class interpersonal and communication skills are vital as well as a detailed knowledge of modern IT systems. Previous experience of working in a professional practice would be an advantage.

The package is negotiable comprising a base salary of up to £45K; a results oriented bonus and other benefits.

Please send in confidence a comprehensive CV indicating how you meet these requirements, including details of present remuneration and a daytime telephone number to: Box A6298, Financial Times, One Southwark Bridge, London SE1 9HL.

Shortlist interviews will be held in early January

INTERNATIONAL TAX MANAGER

VAT & CORPORATE TAX

LONDON

£ MARKET RATE

This is a truly exciting opportunity for a VAT or Corporate Tax Specialist to join a rapidly expanding and entrepreneurial group, with a proven track record, in the fast growing telecoms sector. The company is well positioned to become one of the leading groups of its kind in Europe having grown successfully both organically and by acquisition. In response to such growth and the increasing complexities of their international business, a challenging new position has been created.

Principal accountabilities for the successful individual will be:

- resolution of VAT issues related to the construction of the European infrastructure and the monitoring of VAT filings to minimise the cash flow impact of VAT refunds
- implementation of corporate income tax strategies for European group companies
- supervision of the compliance activities of external advisers

It is envisaged that the successful individual will be:

- a graduate with five or more years experience of VAT, looking for career progression from a pure VAT role to a combined VAT and corporate tax role
- proactive and highly commercial in outlook, able to work autonomously or as part of a multi discipline team
- a strong communicator able to establish good working relationships internally and externally

Clearly this is a most attractive opportunity and interested applicants should contact Andrew Hick at Robert Walters Associates by sending a detailed Curriculum Vitae stating current remuneration to 10 Bedford Street, London WC2E 9HE. Tel: 0171 379 3333 or fax details for his attention on 0171 915 8714.

E-mail: andrew.hick@robertwalters.com Web: http://www.robertwalters.com

You may also apply via http://taps.com/Robert_Walters quoting reference RW248.

ROBERT WALTERS ASSOCIATES

FS 30091

LONDON THAMES VALLEY AMSTERDAM BRUSSELS FRANKFURT NEW YORK HONG KONG SINGAPORE SYDNEY MELBOURNE BRISBANE WELLINGTON AUCKLAND JOHANNESBURG

Divisional Controller

Dubai c£50k + Bonus

"The most important thing is not losing your curiosity."

Akio Morita, Co-Founder, Sony Corporation

Curiosity – questioning, challenging, constantly seeking to innovate and improve – is the driving force behind Sony's position as one of the world's most powerful brands. But it's not a quality confined to the development of new products – it's a company-wide culture.

We are now looking for someone to bring that quality to the role of Divisional Controller for Sony Broadcast and Professional Products' Middle East operations. Based in Dubai, the company is responsible for annual sales of $100 million across thirteen countries.

As a member of the senior management team setting the strategy for the region, you will be responsible for finance and business planning – accounting, banking, credit control, budget and forecast preparation, monitoring of expenditure and risk identification. In addition you will provide direction to supply chain and administration management, and ensure information systems requirements are met. You will also work closely with Sales in the preparation and negotiation of major bids. As well as travel within the region, you will regularly visit Sony offices in the UK and Holland.

To meet the demands of this rapidly growing, multi-cultural environment, you will need to have:-

- A professional accounting qualification (CIMA) and possibly an MBA.
- At least 10 years' wide ranging financial, commercial and administrative management experience.
- Experience of inter-company and multi-currency issues, and sound knowledge of export procedures.
- Strong computer skills and knowledge of SAP.
- High level planning, organising and problem solving skills developed in a dynamic, hands-on environment.
- Spent some time in an overseas management role, preferably in the Middle East.

You can expect to spend up to two years in Dubai, complete with an exceptional expatriate package. And after that.......

Curious? Then please write with your career and salary details, quoting reference 0637, to our advising consultant Alan Crompton, Barnes Kavelle Limited, Cavendish House, Littlewood Court, Bradford, West Yorkshire BD19 4TE. Alternatively, fax your details to 00 44 1274 864 111 or Email to cb@barneskvl.demon.co.uk.

Closing date for applications is Monday, December 21, 1998.

INVESTOR IN PEOPLE

SONY

centrica Develop with a Major New Force in the Energy Sector

Financial Management - Joint Ventures

Centrica, formed as a result of the demerger of British Gas plc, has rapidly established itself as a highly successful and diverse energy and services group. In addition to operating the Morecambe gas fields, the company was one of the first to flow gas through the Interconnector when it opened recently.

The newly completed acquisition of PowerGen North Sea Limited, which added eight producing fields and several undeveloped gas fields to its portfolio, is a particularly exciting development and has placed the company in an excellent position to develop further in the UK and Europe.

The Energy Management Group is responsible for gas and electricity trading, large industrial sales contracts and gas purchasing contracts, the Morecambe fields and asset acquisition and development.

Reporting to the Financial Controller within the Energy Management Group, you will be responsible for all financial activities associated with Centrica's non-operated joint ventures.

This will include input to financial and business planning, joint venture billing and management accounts, cash flow monitoring, budgetary control and close liaison with Corporate functions.

Fully qualified, you have five or more years' upstream oil and gas sector experience including exposure to North Sea joint venture activities gained with an oil and gas company or in practice.

The role calls for an individual with a positive, proactive and team spirited approach, who will respond to a flexible, wide ranging workscope in an environment with excellent potential for further growth and career development. Strong influencing skills and an accomplished presence at meetings are prerequisite.

Based at the company's Head Office at Slough, you will receive an attractive, comprehensive remuneration and benefits package together with relocation assistance where necessary.

In complete confidence, please write with CV to:
**John Diack, Managing Director,
Simpson Crowden Consultants Limited,
97/99 Park Street,
London W1Y 3HA.
Telephone: 0171 629 5909.
Fax: 0171 408 0608.
E-mail: simpsoncrowden@msn.com**

Simpson Crowden
CONSULTANTS

In the marketplace, one name carries more weight

New Business Accountant

Weybridge, Surrey *c. £40,000 + fully expensed car + benefits*

CHEP is an acknowledged world leader offering products and services to logistics and supply chain businesses across 30 countries in six continents covering a wide range of market sectors. In Europe alone we manage over 50 million pieces of materials handling equipment through state-of-the-art operations centres. We are now looking for a commercially minded accountant to provide long-term financial guidance as a key member of our new business development team.

With at least three years' post qualification experience, you will have the commercial acumen and eye for detail to tackle a role that is more financial management than accountancy. Reporting to the Finance Director you will contribute heavily to the strategic direction of the business, with responsibility for budgeting, forecasting and analysis costing related to new products, services and markets. Excellent financial modelling skills are essential.

You will be joining a close-knit business team in a fast-moving company with impressive plans for further overseas and domestic growth. There are considerable opportunities for career development.

Please send your CV and details of your current remuneration to the Personnel Department, CHEP UK Ltd, Weybridge Business Park, Addlestone Road, Addlestone, Surrey KT15 2UP, quoting reference NB/FT or email Job_info%CHEP@notes.interlient.com

CHEP
EQUIPMENT POOLING SYSTEMS

EUROPE AMERICAS AUSTRALASIA ASIA AFRICA

Situations not vacant.

Appointments Announcements in the FT every Friday.

Announces changes in senior personnel within a company.

For more information on advertising opportunities please call:
Tel: +44 171 873 4015 Fax: +44 171 873 4331

IT Appointments

custody
clearing
settlement

Develop the Future. Real time.

www.capitalmarketscompany.com

QUANTITATIVE ANALYSIS

Interest Rate (Money Market) Risk Analysis

This major investment bank urgently requires an individual with at least two years experience of interest rates markets to develop quantitative analysis tools. The role requires:

- Analysis of key market data to identify market behaviour and risk parameters
- Development of risk reports to present risk-analysis and stress analysis to senior management
- Development of front-office tools to identify and manage market opportunities
- VB, VBA in Excel are the minimum technical skills required along with very high numeracy skills

Statistician

In addition there is a requirement for a post graduate with a minimum of a 2.1 and an MSc/PhD in statistics to join the research team to develop computer driven strategies for a portfolio of over $1 billion. The overall purpose of the position is to develop quantitative techniques for statistical modelling of market behaviour and analysis of portfolio risks. Two years post qualification experience of large data sets as well as programming skills in C and familiarity with statistical packages e.g. SPLUS are preferred.

Please contact Alex Blair on:

Huxley Associates
INVESTMENT BANKING
America House, 2 America Square, London EC3N 2AH

Tel: 0171 335 5890
Fax: 0171 335 0008
Email: a.blair@huxley.co.uk

EQUITIES

Opening rises hit by Ericsson

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

A profits warning from one of Europe's leading stocks and a weak opening on Wall Street ensured that the continent's bourses lost their initial opening gains.

Merger activity had dominated the first half of the week, but yesterday it was one of the persistent themes of the last few months that leapt to the fore – the pressure on corporate profits.

Ericsson shares took a tumble after the Swedish mobile phones group said profits would be 15-20 per cent below market expectations and announced a round of job cuts. The company's shares fell Ecu 4.30 to Ecu 20.84.

That weighed on the rest of the electronics and electrical equipment sector, which fell 5.1 per cent, the day's worst performance, with Nokia off Ecu 2.90 at Ecu 89.74.

The Ericsson news did its bit to harm sentiment across the markets, as did a bad start for New York, where the Dow Jones Industrial Average fell more than 100 points shortly after Europe's bourses closed.

Peter Oppenheimer, global strategist at HSBC Securities, said: "The Ericsson announcement was quite a critical issue. There is a big risk that further profit warnings will come through, which will have a negative effect on sentiment.

"But it doesn't change the fundamental picture. We still think Europe is in an up phase although we would be defensive in our stock selection," he said.

The FTSE Eurotop 100 index fell 25.31 or 1 per cent to 2,576.23, while the broader Eurotop 300 slipped 9.03 to 1,114.17. The FTSE Ebloc 100 index, which comprises stocks in euro-zone countries, dropped 5.08 to 931.25.

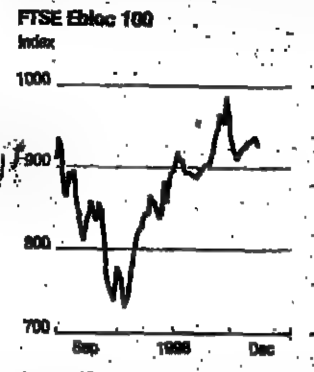
There were still signs that markets were winding down ahead of Christmas with many institutions likely to cease trading in European stocks next week, as they prepare for the introduction of the euro.

The day's best sector was healthcare, up 4.5 per cent thanks to Nycomed Amersham, which rebounded Ecu 0.29 to Ecu 5.23 after Wednesday's losses.

Information technology shares fell 2.2 per cent with preference shares in German software group SAP off Ecu 12.70 at Ecu 385.15.

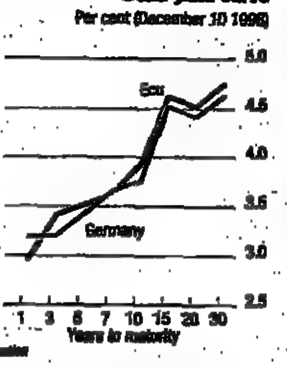
FTSE Ebloc 100

Index



Bond yield curve

Per cent (December 10 1998)



Sources: FTSE International, Interactive Data/FT Information

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.580	96.605	+0.020	96.605	96.580	161	6610
Mar	96.890	96.885	+0.065	96.890	96.880	128	5967
Jun	96.960	96.975	+0.020	96.960	96.960	8	2274
Sep	96.960	96.980	+0.025	96.980	96.960	67	1176

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
96750	0	0.150	0.160	0.170	0.145	0.080	0.090	0.040
96875	0				0.270			

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2595.0	2580.0	-22.0	2624.0	2576.0	2116	5407
Mar	2610.0	2591.0	-28.0	2635.0	2590.0	1936	2580

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	[illegible] C	[illegible] P	[illegible] C	[illegible] P	[illegible] C	[illegible] P	[illegible] C	[illegible] P	[illegible] C	[illegible] P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P
Dec	106	41	88	53	71	62	62	86	39	110	16	157	11	201	6	246
Jan	197	101	137	120	115	140	86	170	66	200	52	232	39	270	226	142

Est vol total 0. Prev day's open interest total. [illegible]. Premiums shown are based on settlement prices.

OTHER INDICES

	Dec 10	Dec 9	Dec 8	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3118.88	3148.93	3118.10	[illegible]	2433.07	[illegible]	2433.07
DJ Euro Stx 50	3108.59	3111.88	3102.98	3658.48	2419.23	3658.48	2419.23
MSCI Europe	(u)	1125.76	1120.08	1315.95	905.59	1315.95	810.78

Source: Datastream of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Dec 10 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj. ytd	Total return (Ecu)
FTSE Eurotop300	1114.17	-0.80	-9.03	2.46	25.05	1146.79
FTSE Eurotop100	2576.23	-0.97	-25.31	2.48	38.97	923.06
FTSE Ebloc 100	931.25	-0.54	[illegible]	2.27	14.94	945.17
FTSE EuroMid	1093.57	-0.51	-5.60	2.98	1.39	1132.47
FTSE EuroMid Ebloc	1158.24	-0.27	-3.08	2.55	0.07	1182.27
FTSE EuroMid Ex UK	1151.92	[illegible]	-6.53	2.43	0.05	1172.88
FTSE Eurotop 300 Regions						
Eurobloc	1167.03	-0.52	-6.04	2.17	21.86	1191.89
UK	1038.69	[illegible]	-4.30	2.93	34.25	1089.44
Europe Ex-Eurobloc	1071.45	-1.11	-12.04	2.76	27.51	1108.97
Europe Ex-UK	1157.90	-0.99	[illegible]	2.33	19.91	1179.47
FTSE Eurotop Industry Sectors						
RESOURCES	834.57	-0.46	-3.89	3.41	29.22	872.72
Extractive Industries	724.76	-1.36	-9.94	4.71	14.54	740.06
Oil, Integrated	807.60	-0.42	-3.45	3.35	21.73	827.15
GENERAL INDUSTRIALS	1009.97	-1.82	-18.61	2.72	21.29	1031.31
Construction	868.42	+0.32	+2.73	3.17	11.06	878.50
Building Matls & Merchs	863.32	+1.44	+12.29	2.59	8.96	870.77
Chemicals	809.84	+0.74	+5.93	2.90	17.45	824.13
Diversified Industrials	918.09	-0.75	-6.94	2.59	22.81	939.09
Electronic & Elect Eqpt	896.28	-5.11	[illegible]	1.85	[illegible]	901.18
Engineering	836.52	-0.54	-4.54	3.66	12.32	847.35
Paper, Pckg & Printing	755.27	-1.11	-8.50	3.07	1.21	755.20
CONSUMER GOODS	1169.18	-0.33	-3.82	1.80	18.53	1201.33
Automobiles	850.13	-0.52	-4.42	2.88	10.25	858.03
Alcoholic Beverages	[illegible]	+1.98	+18.06	1.85	17.53	949.70
Food Producers	925.14	+0.08	+0.76	[illegible]	11.84	938.01
Household Goods & Texts	1045.67	+0.36	+3.82	1.80	6.94	1054.80
Healthcare	828.75	+4.53	+35.91	1.39	13.51	841.15
Pharmaceuticals	1043.89	-0.88	-9.35	1.23	3.27	1054.57
Tobacco	1258.98	-1.69	-21.68	4.02	22.77	1282.91
SERVICES	1128.28	-0.65	-7.34	2.10	23.04	1157.73
Distribution	724.23	-0.65	-4.70	3.01	11.37	732.37
Leisure & Hotels	726.32	+0.23	+1.68	3.48	12.27	735.82
Media	849.36	-0.28	-3.05	2.40	10.68	869.50
Retailers, Food	993.10	+0.79	+7.80	2.05	16.00	1008.28
Retailers, General	959.22	-0.68	-6.53	3.34	20.46	979.00
Telecommunications	1084.52	-0.87	-9.55	1.80	13.52	1098.52
Breweries, Pubs & Rests	746.74	+0.16	+1.15	3.84	18.00	761.98
Support Services	942.82	-0.96	-9.14	1.55	9.57	952.82
Transport	899.81	-1.32	-12.04	2.72	18.84	915.40
Information Technology	780.50	-2.24	-18.09	0.48	2.33	791.78
UTILITIES	1437.37	-0.51	-7.30	3.05	61.60	1523.98
Electricity	1095.71	-0.09	-0.98	3.10	31.50	1130.78
Gas Distribution	1145.29	-1.09	-11.67	1.80	99.32	1261.03
Water	997.69	-2.01	-20.43	5.03	44.63	1041.79
FINANCIALS	1184.95	-0.82	-9.85	2.76	27.82	1216.95
Banks, Retail	814.70	-1.16	-8.77	3.67	13.20	825.87
Insurance	892.13	-0.31	-2.89	1.81	11.79	933.28
Life Insurance	1117.81	-0.47	-5.31	1.73	12.98	1132.12
Other Financial	837.91	-0.64	-5.44	2.29	15.95	851.80
Investment Companies	952.91	+0.39	+3.75	2.70	25.55	973.58
Property	607.06	+1.28	+7.69	3.71	21.26	663.64

Further information is available on http://www.ftse.com. © FTSE International Limited 1998. All rights reserved. "FTSE" and "Footsie" are registered trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. "Eurotop" is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. Dealing: [illegible]

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUTOMOBILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BANKS RETAIL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BREWERIES, PUBS & RESTAURANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BUILDING MATERIALS & MERCHANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CHEMICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONSTRUCTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DISTRIBUTORS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DIVERSIFIED INDUSTRIALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRICITY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ENGINEERING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXTRACTIVE INDUSTRIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FOOD PRODUCERS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GAS DISTRIBUTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HEALTH CARE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HOUSEHOLD GOODS & TEXTILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INFORMATION TECHNOLOGY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PROPERTY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INSURANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INVESTMENT COMPANIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LEISURE & HOTELS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
LIFE ASSURANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MEDIA					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OIL, INTEGRATED					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER FINANCIAL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PAPER, PACKAGING & PRINTING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PHARMACEUTICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RETAILERS, FOOD					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RETAILERS, GENERAL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SUPPORT SERVICES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TELECOMMUNICATIONS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOBACCO					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TRANSPORT					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WATER					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Price data and market capitalisation supplied by FTSE International. [illegible]

CURRENCIES & MONEY

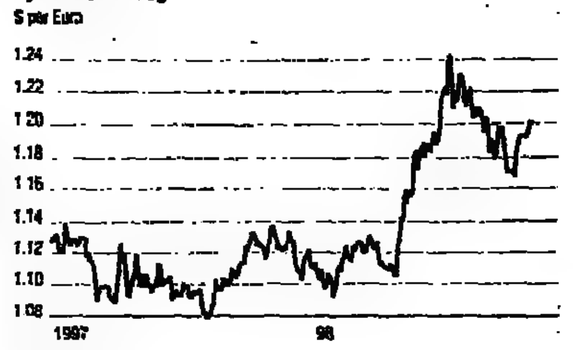
FT SYNTHETIC EURO RATES

Dec 10	Currency code	Closing mid point	Change on day	Change on day %	Change on week	Change week %
Europe						
Austria	ATS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	BEF	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Czech Republic	CZK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	DKK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	FIM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	FRF	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	DEM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	GRD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hungary	HUF	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	IEP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	ITL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg	LUF	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	NLG	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	NOK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Poland	PLN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	PTE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Romania	ROL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Russia	RUB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Slovakia	SKK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	ESP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	SEK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	CHF	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom	GBP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas						
Brazil	BRL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	CAD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	MXN	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United States	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa						
Australia	AUD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	HKD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	JPY	141.114455	+0.1144	+0.08	-0.5541	-0.39
Singapore	SGD	1.981269	+0.0090	+0.45	+0.0188	+0.96
South Africa	ZAR	7.159256	+0.0033	+0.05	+0.3171	+4.63

Source: FTSE International Ltd. The table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1573, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0147

Synthetic Euro against the dollar

$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Dec 10	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0354	+0.00	+0.00	7.0363	3.56	+0.23
Belgium	20.6255	20.6327	+0.03	+0.00	20.6331	3.36	+0.03
France	3.35386	[illegible]	+0.02	-0.01	3.3544	3.33	+0.00
Finland	3.04001	3.0404	+0.01	+0.01	3.0409	3.63	+0.30
Ireland	0.402676	0.4027	+0.01	-0.02	0.4028	3.78	[illegible]
Italy	990.002	990.3585	[illegible]	+0.02	990.4538	3.5	+0.17
Luxembourg	20.6255	20.6327	+0.03	+0.00	20.6331	3.36	+0.03
Netherlands	1.12674	1.1273	+0.05	+0.02	1.1272	3.17	-0.16
Portugal	102.505	102.5851	+0.08	-0.10	102.5914	3.44	+0.11
Spain	85.0722	85.0527	-0.02	-0.12	85.0637	[illegible]	+0.28
Germany	1		+0.00	+0.00		3.33	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3. Forward rates are exchange rates on 31/12/98 interpolated from market quotes. Forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Dec 10	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.26	3.29	3.28	3.32	0.00	0.00	5.01	5.04	0.45	0.48
2 year	3.31	3.34	3.32	3.36	5.67	5.70	5.05	5.08	0.53	0.56
3 year	3.40	3.43	3.41	3.45	5.61	5.65	5.11	5.14	0.65	0.68
4 year	3.52	[illegible]	3.52	3.56	5.59	5.63	5.16	5.19	0.78	0.81
5 year	3.67	3.70	3.67	3.71	5.57	5.61	5.21	5.24	0.91	0.94
6 year	3.82	3.85	3.82	3.86	5.54	5.58	5.26	5.29	1.03	1.06
7 year	3.95	3.98	3.95	3.99	5.52	5.56	5.31	5.34	1.16	1.19
8 year	[illegible]	4.11	4.08	4.12	5.50	5.54	5.36	5.39	1.28	1.31
9 year	4.19	4.22	4.19	4.23	5.50	5.54	5.42	5.45	1.39	1.42
10 year	4.27	4.30	4.27	4.31	5.50	5.54	5.46	5.49	1.50	1.53
12 year	4.41	4.44	4.41	4.45	[illegible]	5.53	5.54	[illegible]	1.73	1.77
15 year	4.60	4.63	4.60	4.64	5.46	5.52	5.63	5.66	1.95	1.99
20 year	4.80	4.85	4.80	4.84	5.43	5.50	5.71	5.74	2.15	2.20
25 year	4.82	4.85	4.82	4.86	5.41	5.48	5.71	5.74	2.22	2.27
30 year	4.98	5.01	4.98	5.02	5.39	5.47	5.71	5.74	2.28	2.33

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 7 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Dec 10	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium Kingdom of	03/08	5.750	N/A	113.050	4.03	-0.04	-0.37	+0.11
France Rep of	04/08	5.250	AAA	110.910	3.84	-0.01	-0.43	-0.08
Italy Rep of	05/08	5.000	AA	108.060	3.98	[illegible]	-0.50	+0.04
Portugal Rep of	06/08	5.375	AA-	109.710	4.12	-0.03	-0.44	+0.20
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	104.880	3.60	-0.02	-0.39	+0.09
Gen Electric Cap Crp	10/04	5.500	AAA	109.360	3.68	-0.02	-0.33	+0.15
Oest Kontrollbank	04/08	5.250	AAA	109.180	4.05	[illegible]	-0.58	+0.13
Cred Local de France	04/08	5.250	AA+	107.380	4.29	-0.04	-0.43	+0.39
Ecu Issues								
Bayer Hypo-& Wech Bk	07/01	5.000	AA-	103.945	3.35	[illegible]	[illegible]	-0.06
Cred Foncier France	03/04	8.375	A	119.927	4.08	-0.02	-0.36	+0.55
Euro Inv Bank	04/04	5.250	AAA	109.410	3.49	-0.09	-0.41	-0.04
ABN Amro Hldg NV	04/07	6.375	AA-	113.036	4.47	-0.02	-0.36	+0.67

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1.1.99. Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99

GOVERNMENT BOND SPREADS vs ECU

Dec 10	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.10	[illegible]	[illegible]	+0.02	-0.46	+0.15
Belgium	-0.09	+0.04	+0.17	+0.19	[illegible]	+0.13
Finland	-0.19	+0.10	+0.19	+0.13	-0.47	-0.70
France	-0.19	-0.10	-0.10	-0.08	-0.13	-0.11
Germany	-0.20	-0.09	[illegible]	-0.17	-0.11	-0.12
Ireland	-0.08	-0.14	+0.00	+0.09	+0.05	+0.38
Italy	-0.06	-0.10	+0.04	+0.13	+0.25	+0.12
Luxembourg	-0.09	+0.04	+0.17	+0.19	+0.07	+0.13
Netherlands	-0.10	+0.01	+0.11	-0.04	+0.08	-0.12
Portugal	-0.14	+0.14	+0.26	+0.19	+0.28	+0.15
Spain	-0.28	-0.05	+0.19	+0.17	+0.10	+0.10
"Outs"						
Denmark	+0.84	+0.60	+0.45	+0.39	[illegible]	+0.73
Greece	+6.22	+4.66	+4.01	+3.36	+2.79	+2.56
Sweden	+0.15	+0.29	+0.49	+0.30	+0.29	+0.00
UK	+1.84	+0.93	+0.87	+0.65	+0.02	-0.39

Source: Interactive Data/FT Information. Table takes compares convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Dec 10	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.09	+0.07	+0.21
France Telecom	AA+	11/05	6.250	FRF	+0.25	+0.27	+0.12
Halifax	AA	07/07	8.625	DEM	+0.45	+0.39	[illegible]
Ing Bank NV	AA-	01/08	5.500	NLG	+0.30	+0.35	+0.24
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.27	+0.24	+0.29
Cred Foncier	A	02/03	7.250	DEM	+0.62	+0.66	+0.42
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.52	+0.52	+0.81
Generale des Eaux	N/A	03/04	6.250	FRF	+0.42	+0.42	+0.40
Bank of China	BBB	07/08	7.125	DEM	+2.14	+1.98	+2.17
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+1.01	+1.03	+1.06
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.32	+5.84	+6.26
Argentina	BB	04/08	8.125	XEU	+5.87	+5.89	+5.02

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

NEW ISSUES PLAN TO CALM MARKET

Japan to take a 30-year view

By Gillian Tett

The Japanese government is drawing up plans to issue a 30-year bond for the first time in a new bid to calm market concern about the country's spiralling national debt.

The Ministry of Finance also plans to issue one-year Treasury bills, or short-term financing instruments, and may issue five-year bonds as well, also for the first time, officials say.

Government officials insist the move is intended to create greater flexibility and depth in Japan's capital markets, which are underdeveloped compared with those of other large industrialised countries such as the US.

However, the plans also reflect the government's rising alarm about the recent slump in the price of the benchmark 10-year Japanese government bond. Some officials fear the bond could tumble further because the debt levels are set to surge as a result of the planned stimulus measures.

One ministry official said: "We have not made any official decisions [about the 30-year bond] yet. But we want to diversify the funding sources to create better capital markets, and minimise market disruption."

However, bond prices yesterday fell sharply as news of the plans increased, rather than eased, market concern. The yield on the benchmark 10-year JGB surged to 1.18 per cent, 0.07 per cent up on the day, as investors concluded that the fiscal situation was so severe the ministry was planning bigger-than-expected issuance next year.

William Campbell, head of research at J.P. Morgan, said: "People think this [plan] means that the government is trying to hide the size of the funding crisis. The government has so many bonds to issue that it doesn't think the current windows can absorb it."

Market concern about Japan's looming bond issues has been partly triggered by the government's decision to implement a Y24,000bn stimulus package. This requires an additional Y13,000bn bond issuance before next March, pushing the overall issuance to a record Y76,430bn in fiscal 1998.

But investors have also been alarmed by signs that the Trust Fund Bureau, an arm of the ministry, is becoming more reluctant to buy JGBs. With the government due to implement further stimulus measures next year, bond issuance is likely to surge even higher in fiscal 1999, traders warn.

Government officials yesterday said the new 30-year issues were unlikely to be introduced until fiscal 1999. However, some traders said the step could mark a shift in Japan's markets, which have had fewer types of government bonds than other developed countries.

Masuhisa Kobayashi, analyst at Merrill Lynch, said: "This is a major decision for the ministry, which has relied on 10-year bonds in the past. We expect this will spur the diversification of maturity periods in the corporate bond market as well."

At present, for example, the government only issues four, six, 10 and 20-year bonds, with most of its funding needs met through 10-year JGBs. However, in addition to the planned 30-year bond, the ministry is also planning to introduce a one-year TB, in addition to the current six-month TB.

UK rate cut fails to impress

GOVERNMENT BONDS

By Arkady Ostrovsky and Moffat Ekoriko in London and John Labate in New York

The market yesterday shrugged off the 50-basis point cut in UK interest rates, having discounted the move.

The March contract on the 10-year gilt future moved up 0.27 to settle at 118.71 in London, taking a lead from the strong opening in other mainland European markets.

The Bank of England cut the rate to 6.25 per cent, saying "the prospect for global activity appears to have weakened and commodity prices have fallen further".

Kit Juckes at NatWest Capital Markets said the market had discounted nine-tenths of the interest rate cut and was unimpressed by the move. UK rates are still more than double the level of that in the euro-zone in spite of the fact that many are forecasting flat or even negative growth in the UK next year.

The long end of the yield curve continued to rally across Europe yesterday, fuelled by the falling oil prices.

The Brent oil future contract hit a record low of $9.70 a barrel yesterday in further evidence that disinflation was accelerating.

The March future on the 10-year German bund closed 0.09 higher at 116.46. The March future on the 10-year Italian bond moved up 0.14 to 114.17.

"The 10-year gilt did not outperform the 10-year German bund," said David Knott at Deutsche Bank. "This proves that the interest rate cut in the UK was seen as a confirmation of the general policy easing in Europe rather than as a reflection on the UK economy in particular. The timing and the size of the cut could be specific to the UK, but all the macro trends are global."

In Japan the March contract on the 10-year JGB closed 0.27 lower at 134.90 after the Ministry of Finance indicated it might increase supply at the long end of the yield curve from the next fiscal year.

US Treasuries continued to push higher as a broad-based sell-off took hold of Wall Street stock trading in the morning. The 30-year bond was $\frac{1}{32}$ higher at 104$\frac{1}{32}$, sending the yield down to 4.940 per cent.

The 10-year note gained $\frac{1}{32}$ to 101$\frac{1}{4}$, yielding 4.518 per cent and the two-year note was $\frac{1}{8}$ higher at 100$\frac{1}{32}$, yielding 4.373 per cent.

Fresh concerns about Russia's debt programme and growing unease about Iraq's resistance to weapons inspections have resurfaced recently to affect the market. Falling stock prices also sent money back into Treasuries.

Turkey back with 10-year issue

INTERNATIONAL BONDS

By Vincent Boland and Edward Luce

Turkey returned to the markets yesterday with a $200m 10-year issue, its first dollar deal since sentiment went against emerging market borrowers this year.

Yielding 790 basis points over the underlying US Treasury, the issue came at a premium to other Turkish paper in dollars and D-Marks and reflected the extent to which such borrowers have to pay dearly for new funds on the international markets. A DM600m three-year issue last month was priced to yield 608 basis points over the underlying bund.

A banker at Chase, joint lead with Salomon Smith Barney, said Turkey's D-Mark paper was generally tighter than dollar paper because of Germany's substantial Turkish community.

Turkey is estimated to need up to $1bn a week in funding in the first quarter of next year, and there were indications it may make another foray into the market soon.

The banker said yesterday's issue had achieved "good placement" in the US and Europe and had tightened by three basis points after launch. The issue carries a five-year put and an expected yield to then of 12.25 per cent.

Seagram, the Canadian entertainment company, yesterday stepped up its planned $2bn yankee offering to $3.5bn in light of overwhelming demand. The Baa3-rated company issued a six-tranche offering lead-managed by Goldman Sachs. The tranches, which range from maturities of three to 30 years, are expected to be priced at a range of between 170 and 250 basis points respectively.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Republic of Turkey(a)	200	12.00#	99.085R	Dec 2008	0.875R	+790(Nov03)	Chase/Salomon SB
World Bank(b)	100	5.00	99.99	Nov 2005	0.30	+58(5¾%Aug03)	Greenwich NatWest
BNG‡	70	4.40(c)	100.00	Jan 2002	1.10		IBJ Intl/New Japan Secs
D-MARKS							
HypoVereinsbank	500	4.75	98.88R	Dec 2008	0.40R	+110(Jul08)	HypoV/Merrill/Warburg
HypoVereinsbank‡	250	(e)	100.00R	Dec 2008	0.40R		HypoV/Merrill/Warburg
STERLING							
Statoil(d)	75	6.125	101.988R	Nov 2028	0.525R	+155(6%-28)	Barclays/JP Morgan
Intl Finance Corp(f)	50	5.75	101.344	Jul 2002	undisd	+61(7%Jun02)	Lehman Brothers Intl
YEN							
Kris(Cayman Is)One Ltd(g)	6bn	1.30	100.00	Jan 2004	0.50		Nomura International
EUROS(e)							
BNG	400	3.50(e)	98.74R	Jul 2004	0.25R	+8(9½%Jul04)	HypoVereinsbank
NEW ZEALAND DOLLARS							
GMAC	200	6.00(s)	101.025	Jul 2001	1.125		TD Securities
DRACHMA							
Republic of Italy	20bn	7.00	99.4526R	Jan 2002	0.1675R		RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Puttable on 15/12/03 at par. b) Fungible with $900m. Plus 42 days accrued. c) 3-mth Libor +55bp. d) Fungible with £150m. Plus 33 days accrued. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Fungible with £350m. Plus 44 days accrued. g) Insured by Japan's Ministry of Intl Trade and Industries for Malaysia. q) Quarterly coupons. s) Short 1st coupon.

Great expectations face new CBOT chief

Soybean trader David Brennan must create a consensus, writes **Nikki Tait**

The cavernous trading floor at the Chicago Board of Trade, the world's biggest futures exchange, bustled as usual yesterday morning. But the big question being asked was how much difference the surprise overnight election of David Brennan to the CBOT chairmanship would make to its future.

Patrick Arbor, the outgoing chairman who lost his bid for a fourth two-year term by 19 votes, was seen as a fairly progressive force at the 150-year-old institution, favourable to the interests of larger trading firms.

While careful to sing the praises of the traditional open-outcry trading system at home, he had pushed for a cost-effective pooling of back office systems with those of the Chicago Mercantile Exchange, CBOT's cross-town rival, and backed an alliance with Eurex, the German-Swiss exchange. The exchanges would jointly develop a new electronic trading system, and distribute each other's products.

But as cheaper electronic-based trading alternatives continued to threaten and seat prices slumped, rumblings over the leadership grew. The board voted down "common clearing" at the membership's urging. Dissatisfaction with some expenditures, such as the licencing of the Dow Jones indices, and a feeling that the exchange was not capitalising on its assets took root. Mr Brennan became a focal point for the discontent.

Yesterday, the new chairman was saying little, beyond pledging an "open door" policy and thorough membership consultations.

But in the course of his campaign, Mr Brennan stressed his desire to build a more efficient, paperless floor around the core "open outcry" execution method, and supported "side-by-side" electronic and pit trading. He – and supporters – criticised the slow progress in introducing electronic order routing to the floor.

Mr Brennan questioned some elements of the Eurex alliance although he said the "concept sounds good". Obstacles included who would get access to the new system – and thus the CBOT's flagship interest rate-related complex – and the role Andersen Consulting would have in developing the technology.

The soybean trader also talked of the need to explore "mutual interests" with the neighbouring Chicago Board Options Exchange, and rethink the exchange's expenditure, now topping $150m annually.

As for talk of converting to "for profit" status or even turning CBOT into a shareholder-owned entity, he pledged to support the current examination of this option, although added that any decision would be "deliberate and judicious".

Mr Brennan also promised accountability and full information. It was an implied criticism which irritated Mr Arbor during the campaign. In membership organisations, the former chairman noted, participants tend to develop personal views, and then complain that they are not being heard. Indeed, bringing the disparate interest of the CBOT membership into a consensus may yet be Mr Brennan's hardest task.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 10	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	6.750	[illegible]	4.37	-0.05	-0.01	-0.20	[illegible]
	09/08	6.750	[illegible]	[illegible]	-0.07	-0.03	[illegible]	[illegible]
Austria	07/05	5.875	104.2900	[illegible]	-0.03	-0.18	-0.54	-1.46
	01/08	5.000	107.6400	3.99	-0.04	-0.17	-0.45	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]	[illegible]

EMERGING MARKET BONDS

[illegible]	[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	112.46	112.56	+0.12	112.61	112.31	62,612	34,949
Mar	111.83	111.96	+0.13	112.02	111.70	26,490	20,786

Germany, Italy, Spain, UK, US, Japan futures and options: [illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	112.30	112.25	+1.40	112.30	112.00	11	290

US CORPORATE BONDS

[illegible]	[illegible]

US INTEREST RATES

[illegible]	[illegible]

INTERNATIONAL BONDS

Dec 10	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO (UK)								
EIB	02/07	5.750	AAA	111.8900	4.01	-0.02	-0.32	+0.19
Spain	01/07	5.750	AA	111.8395	4.00	-	-0.41	+0.18
Philip Morris	03/04	[illegible]	A	104.6905	4.35	+0.15	-0.10	+0.60
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK BONDS

FTSE Actuaries Government Securities

[illegible]	[illegible]

UK Indices

[illegible]	[illegible]

UK GILTS PRICES

[illegible]	[illegible]

Other Fixed Interest

[illegible]	[illegible]

CURRENCIES & MONEY

Sterling jumps after Bank cuts rates

MARKETS REPORT

By Alan Beattie

For the third time running, sterling rose against the dollar after an interest rate cut, even though the 50 basis points by which the Bank of England's repo rate fell was larger than many in the market had expected.

The Bank of England's monetary policy committee (MPC) yesterday shaved half a percentage point off rates for the second month in succession. The statement released with the decision cited a worsening global economy and weak domestic surveys as the reason.

But even though the interest rate futures market may have been slightly shy of pricing in a 50 basis point cut, sterling shot up immediately after the announcement.

And although it subsequently lost most of the ground it had gained against the D-Mark, the pound held on to its rise against the dollar to close up at $1.664.

Against the D-Mark it finished at DM2.782, slightly lower than on Wednesday.

■ Sterling's robust reaction to rate cuts, even those not fully priced in by the short sterling markets, has attracted attention from market analysts.

"It reflects the weight of positioning in the foreign exchange market going into MPC decisions," said Ray Attrill of economic consultancy 4Cast in London, whose research has noted the phenomenon.

"It seems to indicate that trader sentiment is more pessimistic on the UK than that of the economists whose views appear in polls."

Mr Attrill added that as long as interest rate levels were still much higher in the UK than elsewhere, precipitate falls in the currency were unlikely.

"The yield on sterling assets still remains attractive," he said. "Traders who have borrowed in other currencies and are long on sterling in quasi-carry trade positions aren't going to be shaken out of them until rates are down towards US or European levels."

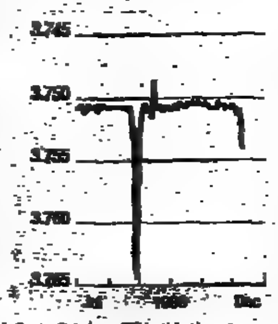
■ The currency fallout from a slump in the world oil price continues. The latest potential victim is the Saudi riyal, where a rare change in the spot as well as the forward rate has threatened to run the target exchange rate regime into the sand.

Yesterday the riyal closed in London trading at SR3.754, above the official SR3.75 peg, with the three-month forward rate above SR3.76. Activity in the forward market, implicitly betting that the government will desert the target regime, is the main means of speculating against the currency.

"Oil prices crashing down to levels last seen in the 1970s have put severe strains on the Saudi budgetary and current account positions and shaken the riyal," said a sovereign risk analyst at a bank in London.

Saudi riyal

Against the dollar (SR per $)



"Because the Saudi foreign exchange market is the most liquid out of all the Gulf states, the pressure was always likely to be seen there first."

Rumours have circulated that the Saudi government has attempted to borrow $5bn from the United Arab Emirates to finance its budget deficit. "But unless oil prices pick up, the Saudi government has limited options," said the analyst.

The Saudis had a choice between cutting the country off completely from international capital markets or opening up much more to attract foreign investment, the analyst said.

But in the meantime, unless the government tightened fiscal policy substantially, it might be forced to abandon the target exchange rate policy, she added.

■ With most vigorous activity in emerging market currencies seemingly suspended until the new year, the strong performance of the Korean won attracted some attention yesterday.

Boosted by planned reforms to the country's conglomerates, stocks rose by nearly 8 per cent yesterday, largely because of money flooding in from abroad.

The consequent demand for local currency continued to drive the won higher. It narrowly failed to break the Won1,200 level against the dollar, with fears of central bank intervention holding traders back from pushing it higher. The won closed at Won1206.5 against the dollar, up from Won1215 on Wednesday.

POUND IN NEW YORK

Dec 10	Latest	Prev. close
£ spot	1.6665	1.6555
1 mth	1.6662	1.6542
3 mth	1.6648	1.6508
1 yr	1.6570	1.6424

OTHER CURRENCIES

Dec 10	£	$
Czech Rep.	[illegible]	[illegible]
Hungary	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Kuwait	[illegible] - 0.5034	0.3021 - 0.3024
Peru	5.2270 - 5.2335	3.1435 - 3.1445
Poland	5.7777 - 5.7878	3.4730 - 3.4770
Russia	[illegible]	[illegible]
U.A.E.	6.1101 - 6.1142	3.6726 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Dec 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.4289	-0.0258	195 - 383	19.4570	19.3716	19.3794	3.1	[illegible]	2.9	[illegible]	2.4	103.7
Belgium	(BFr)	56.9788	-0.0713	284 - 292	57.1810	56.9580	56.8252	3.2	56.5448	3.0	55.588	2.5	103.3
Denmark	(DKr)	10.5172	-	118 - 330	10.5372	10.4788	10.4986	2.1	10.4631	2.1	10.3519	1.5	107.9
Finland	(FM)	8.3963	-0.0112	904 - 021	8.4210	8.3740	8.3756	3.0	8.3352	2.9	8.1882	2.5	83.4
France	(FFr)	9.2634	-0.0104	598 - 670	9.2872	9.2365	9.2383	3.3	9.1886	3.0	9.0334	2.5	107.3

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.6750	-0.0888	725 - 775	11.7455	11.6546	11.665	2.1	11.6243	1.7	11.4853	1.6	103.5
Belgium	(BFr)	34.2403	-0.17	300 - 600	34.4100	34.2000	34.1755	2.3	34.0745	1.9	33.547	1.7	103.8
Denmark	(DKr)	6.3290	-0.0225	182 - 210	6.3471	6.3028	6.3141	1.1	6.3052	0.9	6.258	1.0	107.0
Finland	(FM)	5.0485	-0.0255	435 - 476	5.0736	5.0380	5.0371	2.0	5.0229	1.8	4.958	1.7	82.5
France	(FFr)	5.5668	-0.0280	661 - 571	5.5871	5.5501	5.556	2.3	5.54	1.9	5.4866	1.7	105.8

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

D-MARK FUTURES (IMM) DM 125,000 per DM

JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

EMS EUROPEAN CURRENCY UNIT RATES

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

PHILADELPHIA SE D-MARK/$ OPTIONS

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

US TREASURY BILL FUTURES (IMM) $1m per 100%

EUROMARK OPTIONS (LIFFE) DM1m points of 100%

EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

Oil price continues to drift downward

MARKETS REPORT

By Paul Solman

World oil prices remained weak in London yesterday after Wednesday's close of less than $10 a barrel.

In late trading on the International Petroleum Exchange, the benchmark January contract for Brent blend was $9.85 compared with Wednesday's close of $9.98. Earlier in the day, the price had dipped below $9.70.

Analysts said that in the absence of any firm action by the Organisation of Petroleum Exporting Countries to limit supplies and support the price, the market was *watching the weather* closely for signs of a cold spell that would bring a drawdown in supplies.

Opec has ruled out any decision on extending the 2.6m barrels a day of production cuts agreed this year until its next meeting in March. "Oil markets are watching forecasts closely because of the unseasonally warm weather in the US," one analyst said yesterday.

Temperatures in the north-east US are 20 per cent warmer than normal in spite of earlier forecasts of a colder than usual winter in the northern hemisphere.

On the precious metals markets, palladium received a boost from news that there could be export delays from Russia, the biggest producer, next year.

Palladium is used in capacitors that control power supply in many electronic products and is also used as a catalyst to reduce pollutant emissions in cars. Russia accounts for about 70 per cent of world supplies.

The metal was "fixed" in London yesterday afternoon at $300 an ounce, up $5 on the morning fix. In late trading in Europe, it was quoted at $308.

Meanwhile, gold was "fixed" at $293.95 an ounce in London compared with the morning "fix" of $294.90 and Wednesday afternoon's level of $294.20.

Among base metals, three-month copper closed at $1,514 a tonne, down $2 from Wednesday's close. Three-month nickel ended $35 higher at $3,870 a tonne, while three-month aluminium added $2 to close at $1,268 a tonne.

On the London International Financial Futures and Options Exchange, cocoa futures prices fell again, the benchmark March contract closing down £11 at £940 a tonne.

Western Uranium producers struggle with falling prices

Demand outlook tied to contracts signed by utilities who already have medium-term agreements, writes **Scott Morrison**

Western uranium producers are shutting down facilities, reducing staff and cutting production as they struggle to contend with a supply glut, low spot market prices and an uncertain market outlook.

IMC Global, the US potash and phosphate producer, was the latest company to respond to low uranium prices when it indicated this month it would permanently shut down its two uranium facilities by early next year. The company, which was expected to produce roughly 950,000 pounds this year, about 16 per cent of US uranium production, said it would meet existing sales obligations through inventory.

IMC's decision follows a rash of announcements from producers struggling to cope with a sharp drop in the uranium spot price.

Uranium Resources, the US producer, has said it would "shut in" two facilities and put them on standby status. The company also announced a series of operational and *administrative cuts.* Paul Willmott, the company's chief executive, said prices had fallen below production costs and the outlook was not favourable in the near term.

Cogema Resources, the Canadian subsidiary of the French Cogema group, has also announced plans to shut down a high cost mine in 2000. Rossing Uranium of *Namibia recently proposed* to cut salaries and other operating expenses in an attempt to reduce costs by 30 per cent by the turn of the century.

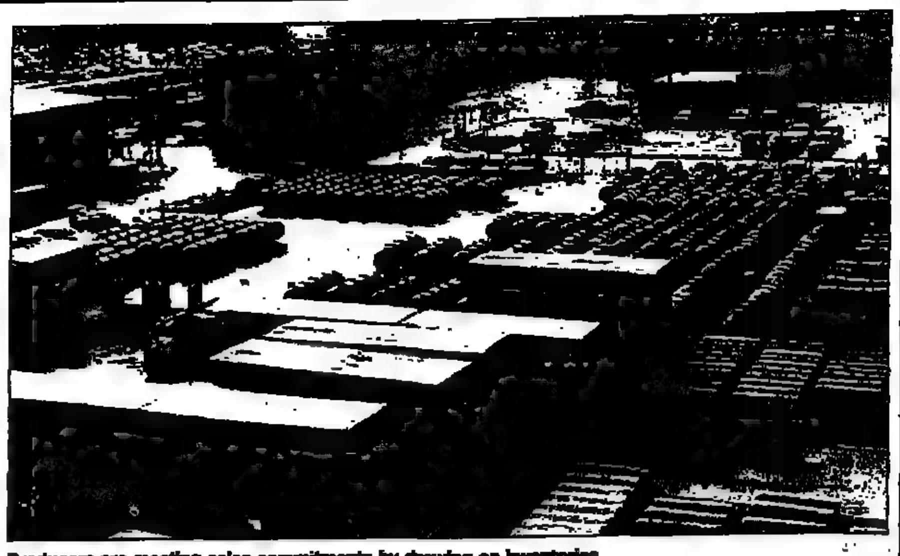
Cameco said it would slash output by 38 per cent to 16m pounds in 1999

Perhaps the most significant announcement came from Cameco, the world's largest publicly traded uranium producer, which said recently it would slash output by 38 per cent to 16m pounds in 1999. In addition, Cameco said uranium conversion *version services at its* Ontario operations would be reduced to 10 per cent below 1998 levels, a measure the company expected would improve its cash flow by C$200m (US$130m) over the next three years.

Like IMC, Cameco said it would continue to meet sales commitments by drawing on uranium inventories, which it has built up in preparation *for a transition to a new* high grade mine in Saskatchewan.

The Cameco announcement appears to have stabilised the spot price for uranium at about $8.75 a pound after slipping more than 10 per cent since late August. While most uranium is sold through long-term contracts at a premium to the spot price, the value of about half of that uranium is tied to the market price at the time of delivery. One nuclear industry analyst said that simply stabilising the spot price was an important development, given the current environment.

The Australian Bureau of Agricultural and Resource Economics (ABARE) recently forecast that while supply into the spot uranium market was expected to stabilise in 1999, world *consumption was not expec*ted to grow significantly and short-term delivery prices are forecast to remain under $11 a pound.



Producers are meeting sales commitments by drawing on inventories

Some industry sources said uranium prices had probably hit bottom, but other forecasters, such as Uranium Exchange, the US consultancy, have been more bearish. It suggested earlier this year that the US market price for uranium could range between $6-$8 by 2000.

That compares with average spot prices of $12.05 a pound in 1997 and $15.62 in 1996.

The outlook for uranium prices is tied to western utilities, which have covered their medium-term uranium needs in contracts signed over the past few years. Industry observers said there had been few new con*tracts signed this year and* not many were expected in the next two or three years.

More importantly, there is a high degree of uncertainty regarding future uranium prices because of the unresolved status of 500 tonnes of highly enriched – weapons grade – uranium stockpiled by Russia. That is equivalent to about 400m pounds of benchmark U3O8, which would be sufficient to meet global demand by commercial reactors for almost three years.

Under a 1993 intergovernmental agreement, Russia is committed to deliver that uranium to the US over 20 years. But it is not yet clear who would control the sale of those stockpiles. A trio of western producers – Cameco, Cogema and Nukem, the US producer – has been attempting to secure control to sell a portion of the Russian uranium to introduce it into the market in an orderly fashion.

Recent negotiations, however, have failed to yield an agreement.

While there are restrictions on the sale of Moscow's uranium in the US and Europe, Russia's atomic energy ministry is free to sell its product on the open market to countries in Asia, eastern Europe and Latin America. Some western producers are concerned that Russian uranium sales could destabilise the market and further depress prices.

Cameco, Cogema and Nukem remain hopeful they can strike a deal to market a portion of the Russian uranium. But with the recent spate of closures and cutbacks, it is clear that many other producers see little reason to be optimistic about the prospects for the uranium industry.

NEWS DIGEST

SUGAR

Skoda wins $160m work to build Philippines plant

Skoda, the Czech engineering group, said yesterday it had won a contract worth $160m to build a cane sugar plant in the Philippines. Skoda, which is based in Pilzen, plans to build the plant by 2000 as part of the Moroland regional development project which is guaranteed by the Philippines government.

The company is not affiliated with Volkswagen's Czech carmaking outfit. The greenfield project will have a daily capacity of 10,000 tonnes of processed cane.

The Moroland Sugar Integrated Project in Mindanao was launched in 1996 after a peace agreement was signed between the Manila government and the Moro National Liberation Front, a Moslem rebel group.

The project, which will cost $260m in total, includes the construction of transport links, cane plantations and expanded harbours to help set up the infrastructure for the sugar industry. The Czech part of the project will receive its financial backing from the arrangers Société Générale and is likely to include IPB, the Prague-based bank, and Egap, the Czech export guarantee and insurance agency. **Reuters**

Price collection plans stall

The issue of commercial confidentiality has hit European Commission plans to start collecting sugar prices direct from refiners, according to an official from one of the members of the European Union.

The panel has wanted to improve the quality and type of *statistical data it collects from EU members for a long time* to protect against price-fixing and ensure the union's single market for sugar functions smoothly.

The only figures it receives now are from the European Committee of Industrial Users of Sugar (CIUS), a lobby group representing sugar-consuming food and drinks companies. Sugar refiners do not reveal factory-gate prices. **Reuters**

COFFEE

Tanzania lifts production

Good weather has boosted coffee production in Tanzania, encouraging traders to raise their 1998-99 crop forecasts of 43,000 tonnes to a possible 50,000 tonnes. Harvesting of the southern arabica coffee crop for this year is complete and yielded about 19,000-20,000 tonnes. The robusta coffee has almost all been harvested and averaged about 12,000-13,000 tonnes. Unwashed varieties were put at 3,000 tonnes.

Northern arabicas have still to be included but have been estimated at 10,000 tonnes. Prices for this variety average between $170 and $180 per 50 kg compared with a peak of $220 in January this year.

Prices are likely to fall because there is less demand from overseas and because of larger-than-expected production from Tanzania. Tanzania is seeking to increase its annual coffee output to between 80,000 and 100,000 tonnes by 2004. **Reuters**

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1258.5-7.5	1267-8
Previous	1256.5-7.5	1265-6
High/low		1275/1260
AM Official	1269-70	1274.5-5.0
Kerb close		1261-2
Open int.	332,533	
Total daily turnover	58,703	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1056-60	1085-90
Previous	1052-7	1082-5
High/low		1096/1081
AM Official	1069-5	1093-5
Kerb close		1080-85
Open int.	7,232	
Total daily turnover	2,490	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	510-11	490-91
Previous	520.5-2.5	495-6
High/low		499/488
AM Official	516-7	494-5
Kerb close		485-6
Open int.	42,641	
Total daily turnover	5,976	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	3790-800	3860-70
Previous	3770-75	3840-45
High/low		3880/3850
AM Official	3815-20	3880-90
Kerb close		3850-60
Open int.	71,685	
Total daily turnover	18,341	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5320-30	5305-10
Previous	5325-35	5300-10
High/low		5320/5300
AM Official	5330-40	5315-20
Kerb close		5300-10
Open int.	19,300	
Total daily turnover	4,318	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	992.5-93.5	1008.5-9.0
Previous	978-9	994-5
High/low		1018/998
AM Official	997-7.5	1011-2
Kerb close		1005-6
Open int.	86,962	
Total daily turnover	19,281	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1486.5-7.5	1513-14
Previous	1487-8	1515-6
High/low		1528/1510
AM Official	1498-7	1522.5-3.5
Kerb close		1512-3
Open int.	180,692	
Total daily turnover	36,036	

■ LME AM Official £/$ rate: 1.6659
LME Closing £/$ rate: 1.6645

Spot: 1.6666 3 mths: 1.6621 6 mths: 1.6580 9 mths: 1.2655

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	66.80	-0.35	67.60	66.80	885	2,731
Jan	67.20	-0.45	68.10	67.40	517	3,399
Feb	67.70	-0.45	68.45	68.00	73	1,959
Mar	68.10	-0.40	69.00	68.00	4,435	46,172
Apr	68.45	-0.40	69.05	68.65	47	1,503
May	68.80	-0.40	69.60	68.85	126	5,113
Total					6,182	77,361

PRECIOUS METALS

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	294.40-294.80		
Opening	293.00-293.30		
Morning fix	294.90	177.415	398.498
Afternoon fix	293.95	176.653	396.245
Day's High	295.40-295.70		
Day's Low	293.60-294.20		
Previous close	294.40-294.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.16	6 months	3.73
2 months	4.08	12 months	3.43
3 months	4.04		

Silver Fix	p/troy oz.	US cts equiv.
Spot	291.60	483.00

Silver Lending Rates

1 month	3.90	6 months	2.30
2 months	3.25	12 months	2.00
3 months	3.10		

Gold Coins	$ price	£ equiv
Krugerrand	297-301	178-181
New Sovereign	70-74	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	294.1	+0.5	294.8	293.8	376	1,365
Feb	295.9	+0.1	297.4	295.7	13,188	88,098
Apr	297.9	+0.1	299.4	297.8	985	19,529
Jun	299.6	+0.1	301.0	299.5	314	15,724
Aug	301.4	+0.2	302.2	302.2	20	6,381
Oct	303.1	+0.3	-	-	80	2,520
Total					15,284	148,134

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	350.9	-1.6	357.0	350.0	1,250	9,408
Apr	352.0	-1.7	357.0	352.5	219	2,812
Jul	353.4	-1.7	358.5	357.0	10	311
Oct	354.7	-1.7	355.0	355.0	-	893
Total						

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	298.65	+13.80	-	-	80	26
Mar	298.65	+13.80	305.00	280.00	574	2,489
Jun	295.15	+13.30	-	-	20	29
Total						

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	476.4	+2.0	479.5	474.5	89	325
Jan	477.9	+2.0	-	-	12	68
Mar	481.0	+2.0	486.0	479.0	6,254	58,152
May	484.1	+2.1	486.0	483.5	96	6,134
Jul	486.6	+2.0	488.0	487.0	45	6,502
Sep	488.7	+2.0	-	-	15	1,546
Total					6,622	82,888

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	10.88	-0.28	11.25	10.69	54,097	101k
Feb	11.21	-0.26	11.63	11.15	29,505	83,012
Mar	11.67	-0.24	11.82	11.50	9,835	45,764
Apr	11.95	-0.27	12.15	11.91	1,308	23,433
May	12.33	-0.19	12.48	12.27	1,440	21,578
Jun	12.63	-0.16	12.66	12.46	2,559	23,409
Total					111,078	510,305

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	9.78	-0.20	10.05	9.68	20,468	43,647
Feb	10.08	-0.14	10.32	9.97	19,041	69,208
Mar	10.38	-0.12	10.56	10.28	2,409	27,773
Apr	10.80	+0.02	10.82	10.62	1,523	14,937
May	10.80	-0.26	11.10	10.80	1,116	11,089
Jun	11.08	-0.24	11.26	11.08	801	25,760
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	31.65	-0.52	32.40	31.30	13,317	53,754
Feb	32.80	-0.64	33.60	32.40	7,870	35,475
Mar	33.85	-0.49	34.44	33.30	2,472	21,204
Apr	34.35	-0.39	34.55	34.05	428	15,685
May	34.90	-0.44	35.35	34.90	502	11,675
Jun	35.80	-0.24	36.00	35.55	1,028	9,949
Total					28,318	185,313

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	91.50	-2.25	93.00	89.25	6,667	8,567
Jan	94.00	-1.50	95.00	92.00	15,625	43,987
Feb	97.50	-2.00	[illegible]	[illegible]	8,475	23,632
Mar	99.75	-1.75	101.25	99.00	707	13,616
Apr	102.00	-1.50	103.75	101.50	471	9,329
May	104.25	-2.25	105.75	104.25	394	3,920
Total					32,000	145,396

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	15.720	-0.370	15.920	15.720	775	3,245
Feb	14.760	-0.210	14.900	14.720	460	5,0[illegible]
Total						25,300

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	1.859	+0.008	1.880	1.790	28,355	52,047
Feb	1.920	-0.002	1.935	1.880	11,011	34,899
Mar	1.935	-0.003	1.950	1.880	5,257	27,770
Apr	1.925	-0.005	1.945	1.905	3,408	15,577
May	1.945	-0.003	1.960	1.920	748	11,774
Total					67,023	244,566

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	34.15	-0.34	34.85	33.75	13,400	34,808
Feb	35.60	-0.42	36.30	35.20	4,736	19,010
Mar	37.35	-0.67	37.35	[illegible]	1,130	8,547
Apr	40.40	-0.34	40.80	40.15	765	11,890
May	40.90	-0.52	41.60	40.90	[illegible]	12,214
Jun	42.15	-0.27	42.15	42.00	[illegible]	6,344
Total					[illegible]	103,928

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	78.75	-0.75	79.00	78.50	160	1,285
Mar	80.00	-0.75	80.25	79.95	172	3,380
May	82.00	-0.75	82.10	81.80	80	3,164
Jul	84.00	-0.75	84.00	84.00	20	324
Sep	81.00	-0.50	-	-	-	94
Total					n/a	n/a

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	282.50	+0.50	282.50	259.00	2,141	1,009
Mar	275.75	+0.50	277.50	272.50	30,949	75,319
May	285.75	-	288.00	283.75	1,566	11,861
Jul	295.50	-	296.00	293.50	3,006	26,214
Sep	305.00	+1.00	307.00	303.75	109	1,499
Dec	316.00	+1.00	320.00	316.50	143	1,486
Total					37,914	117,190

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	214.00	+0.25	214.75	213.50	4,872	13,216
Mar	222.25	+0.25	223.25	221.75	36,483	169,940
May	229.50	-	230.50	229.00	6,110	45,561
Jul	235.75	-	236.75	235.25	4,600	51,369
Sep	242.00	+0.25	242.50	241.75	503	9,707
Dec	247.50	-	248.25	247.00	2,551	24,013
Total					55,409	316,606

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	78.25	-0.25	-	-	-	266
Mar	80.40	-0.35	-	-	-	460
May	81.40	-0.25	-	-	-	32
Sep	79.50	-	-	-	-	20
Nov	81.50	-	-	-	-	20
Total						

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	561.75	-3.75	568.50	557.00	35,285	63,346
Mar	569.75	-4.50	576.50	565.50	10,884	37,593
May	578.00	-4.50	585.50	574.00	3,747	15,295
Jul	584.75	-4.50	592.00	581.25	3,193	19,983
Aug	586.00	-4.50	591.00	584.00	614	3,836
Sep	583.60	-6.00	587.00	583.60	93	821
Total					n/a	n/a

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	24.10	+0.22	23.95	23.50	2,121	2,011
Jan	24.24	+0.22	24.31	23.77	12,939	34,425
Mar	24.50	+0.21	24.59	24.05	7,096	29,468
May	24.67	+0.19	24.65	24.26	2,392	12,964
Jul	24.77	+0.16	24.78	24.43	1,762	13,394
Aug	24.83	+0.08	24.83	24.55	158	2,174
Total					26,892	101,098

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	146.1	-2.8	149.7	144.7	1,325	6,102
Jan	144.9	-2.8	148.5	143.8	8,765	48,939
Mar	147.2	-2.8	150.2	146.0	4,568	28,537
May	150.1	-2.8	153.2	149.0	1,048	13,187
Jul	153.7	-2.2	155.5	152.7	1,871	16,877
Aug	155.1	-2.2	157.0	154.5	386	3,813
Total					18,577	126,058

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	292.0	-	-	-	-	-
Apr	322.0	-3.0	322.0	316.5	78	2,018
May	333.0	-3.0	-	-	-	29
Jun	342.0	-3.0	-	-	-	-
Nov	85.0	-	-	-	-	3
Total					n/a	n/a

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	845	-5	840	840	15	157
Jan	830	-20	830	830	10	480
Apr	925	-32	940	925	26	883
Jul	830	-	830	830	3	437
Total					n/a	n/a

	Close	Prev
BFI	n/a	877

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	404.00	-0.50	-	-	-	170
Mar	426.00	-	-	-	-	432
Total					13	727

FUTURES DATA
All futures data supplied by CMS.

Wool from Mallett & Co

Prices at sales in the penultimate auction week *before Christmas showed small* mixed changes. New Zealand was a little dearer, with the main indicator up 8 cents to 422, while the eastern market indicator in Australia was just one cent higher at 508 cents a kg. British wool, in the crossbred sector, was generally dearer at this week's Bradford sale, the last before Christmas. The slightly erratic market is expected to continue with little confidence a firmer trend will develop early in 1999. Optimists are looking to the second half of the year, but with commodities so depressed those involved incline towards caution.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	900	-11	914	902	114	416
Mar	940	-11	949	939	3,884	64,867
May	961	-10	969	960	3,101	28,863
Jul	981	-8	989	980	693	12,611
Sep	1001	-8	1008	1002	1,311	28,311
Dec	1026	-8	1030	1028	2,148	13,708
Total					n/a	n/a

■ COCOA CSCE (10 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1425	+1	1438	1436	33	98
Mar	1439	-6	1445	1427	2,181	40,089
May	1460	-5	1464	1449	391	13,680
Jul	1473	-6	1487	1472	13	4,067
Sep	1494	-5	1506	1494	16	3,944
Dec	1523	-6	1538	1525	6	5,431
Total					2,711	72,912

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Dec 9		
Daily	1093.03	1093.72

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1880	-13	1900	1851	1,511	18,432
Mar	1742	+17	1750	1709	1,886	17,405
May	1699	+18	1707	1670	666	6,696
Jul	1679	+18	1685	1646	97	1,404
Sep	1659	+18	1690	1690	11	616
Nov	1639	+18	1645	1645	20	244
Total					n/a	n/a

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	115.00	+2.75	117.25	112.50	270	307
Mar	116.00	+3.95	117.25	111.50	4,488	19,092
May	116.35	+3.85	117.50	112.00	223	5,541
Jul	117.10	+3.75	118.00	113.25	79	2,309
Sep	117.90	+3.65	118.00	117.25	20	1,601
Dec	119.00	+3.60	119.00	117.00	27	824
Total					8,107	29,730

■ COFFEE (ICO) (US cents/pound)

		Prev. day
Dec 9		
Comp. daily	89.06	89.02
15 day average	87.50	87.35

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	246.1	-1.4	246.5	245.3	716	20,271
May	246.1	-1.5	247.2	246.5	149	6,631
Aug	245.0	-1.5	246.1	245.7	210	5,284
Oct	239.8	-0.9	240.6	240.5	102	4,489
Dec	243.8	+2.1	-	-	-	558
Mar	245.5	+0.1	-	-	-	644
Total					1,177	37,887

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	8.25	+0.01	8.28	8.18	13,644	85,323
May	8.28	-0.01	8.31	8.23	1,354	18,620
Jul	8.27	-0.03	8.30	8.22	2,446	18,830
Oct	8.45	-0.05	8.48	8.43	869	14,933
Mar	8.67	-0.05	8.73	8.66	669	9,831
May	8.72	-0.05	8.77	8.76	65	1,997
Total					19,047	159,135

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	62.54	-0.18	63.50	62.20	3,764	37,548
May	63.35	-0.20	64.25	63.15	1,002	15,135
Jul	64.20	-0.10	64.85	63.80	537	11,401
Oct	65.15	-0.10	66.30	65.15	68	1,226
Dec	65.95	-	66.90	66.00	396	11,706
Mar	67.25	-	67.35	67.25	55	832
Total					5,823	78,298

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	111.15	+1.75	111.20	109.10	3,767	12,133
Mar	113.40	+1.75	113.45	111.65	1,604	8,046
May	115.20	+1.55	115.20	114.00	376	2,023
Jul	116.75	+1.40	116.75	115.50	61	1,558
Sep	117.45	+1.10	117.25	117.00	-	208
Nov	117.30	-0.05	-	-	-	[illegible]
Total					5,888	24,795

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 10	Dec 9	month ago	year ago
1471.1	1470.7	1486.3	1793.3

■ CRB Futures (Base: 1967 = 100)

Dec 8	Dec 8	month ago	year ago
191.39	182.38	-	-

■ GSCI Spot (Base: 1970 = 100)

Dec 9	Dec 8	month ago	year ago
131.47	132.42	146.54	185.73

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+3,725	to	585,200
Aluminium alloy	+60	to	92,880
Copper	+2,050	to	541,925
Lead	-175	to	108,400
Nickel	-42	to	68,612
Zinc	-425	to	327,950
Tin	+70	to	7,215

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	59.550	-0.325	60.250	59.480	4,279	11,127
Feb	59.850	-0.850	60.150	59.800	10,519	42,420
Apr	61.400	-0.900	62.650	61.250	3,299	24,284
Jun	61.200	-0.850	62.250	61.250	1,886	13,699
Aug	62.425	-0.425	63.150	62.400	1,004	7,983
Oct	65.125	-0.325	65.500	65.050	134	2,528
Total					30,999	102,593

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	21.975	-1.400	23.100	21.900	3,601	6,671
Feb	30.075	-2.000	32.050	30.075	6,694	17,993
Apr	35.875	-2.000	37.900	35.875	1,720	7,812
Jun	48.375	-0.550	49.050	48.150	757	6,224
Jul	50.250	+0.025	50.600	49.900	370	2,341
Aug	51.225	+0.075	51.350	50.600	218	2,709
Total					18,441	44,823

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	43.025	-2.300	45.200	42.950	1,306	4,587
Mar	43.300	-1.425	44.950	43.250	140	957
May	46.050	-0.950	46.000	45.250	56	609
Jul	46.575	-1.250	47.800	46.800	34	352
Total					2,393	6,809

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1250	24	55	18	37
1300	6	33	47	63
1350	1	18	82	97

■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1400	94	135	2	21
1500	22	73	30	57
1600	2	33	109	116

■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1650	230	135	1	44
1700	181	108	1	61
1750	134	78	4	86

■ COCOA LIFFE	Dec	Mar	Dec	Mar
950	25	34	1	34
975	3	15	3	50
1000	1	10	25	70

■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1000	-	74	16	85
1050	3	52	-	-
1100	-	38	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$9.82-9.98x	-0.095
Brent Blend (dated)	$9.14-9.21	-0.295
Brent Blend (Jan)	$9.74-9.81	-0.345
W.T.I.	$10.82-0.84x	-0.360

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$117-119	
Gas Oil	$94-95	-2
Heavy Fuel Oil	$54-57	
Naphtha	$104-106	-1
Jet fuel	$104-105	-1.5
Diesel	$101-103	-1

■ NATURAL GAS (Pence/therm)

Bacton (Jan)	15.73-15.78	-0.30

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$294.85	+0.50
Silver (per troy oz)♣	483.50c	+4.00
Platinum (per troy oz.)	$353.00	+2.00
Palladium (per troy oz.)	$300.00	+14.00
Copper	73.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.95r	
Tin (New York)	250.5	
Cattle (live weight)	89.48p	+4.83*
Sheep (live weight)	62.42p	+1.58*
Pigs (live weight)†	52.09p	+4.13*
Lon. day sugar (raw)	$202.70	+0.90
Lon. day sugar (wte)	$247.40	+2.40
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	48.00p	
Rubber (Feb)♥	48.50p	
Rubber (KL RSS No1)	258.50m	+2.50
Coconut Oil (Phil)§	770.0y	+10.0
Palm Oil (Malay.)§	625.0	-2.5
Copra (Phil)§	$470.0y	-5.0
Soyabeans (US)	168.0y	
Cotton Outlook'A' index	55.85	
Wooltops (64s Super)	315p	

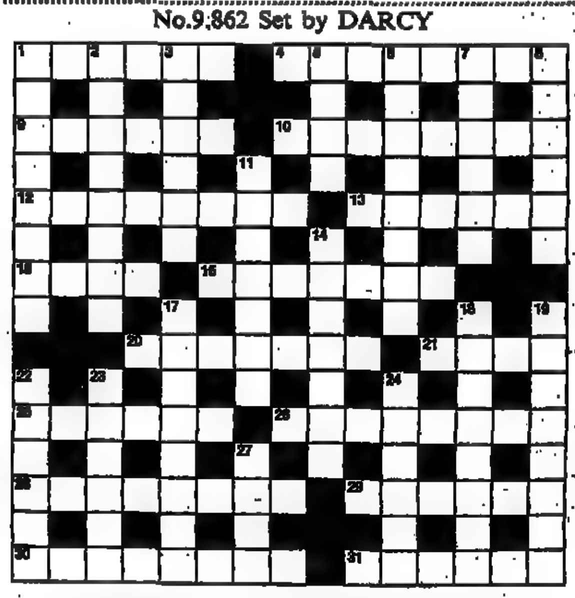
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Dec. ♥ Jan. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,429 head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,862 Set by DARCY



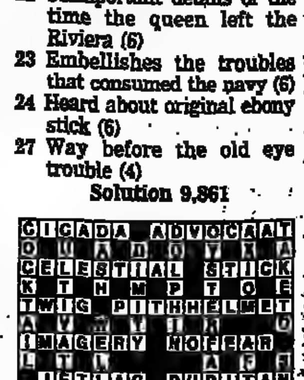
ACROSS

1 Tasteless attempt to conceal *having a wife and* daughter (6)
4 Is afraid about the plumage (8)
9 Liable to erupt when busy (6)
10 Split into north and south camps with the reward of capturing old American city (8)
12 Businessman with a lot of lines surrounding the heart (8)
13 Teach Latin translation for "house" (6)
15 For example, having over-large images of oneself (4)
16 Mercenary material (7)
20 Worker one trains unconventionally (7)
21 Singer in her final Tosca performance (4)
25 Cut back on crude manufacture of ecstasy (6)
26 Last possible time for the funeral procession? (8)
28 Italian, very short on opening (8)
29 Fruit, but more than one is chickenfeed (6)
30 Taxed the second journalist with following simpletons (8)
31 The unorthodox belief is that it's easy to lose a girl in front (6)

DOWN

1 Given cover by Reeds (8)
2 Battle station (8)
3 Enthuse about starters of Italian noodles and gorge (6)
5 Take a tenner, perhaps, up to college (4)
6 *Tear off outside* – pain in the windpipes (8)
7 Good for consumers (6)
8 Lots of retirement cover for man entering exclusive groups (6)
11 Poison dispensed by non-extreme miscreant (7)
14 Got away, being spaced out on drug (7)
17 Developing early, lost company, but remained valuable (8)
18 Everyone can regroup, that is outside the union (8)
19 Turn up in the money, extremely lustily and powerfully (8)
22 Unimportant details of the time the queen left the Riviera (6)
23 Embellishes the troubles that consumed the navy (6)
24 Heard about original ebony stick (6)
27 Way before the old eye trouble (4)

Solution 9,861



Ort ... 520

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

MFS Meridian Funds

Rothschild Asset Management - Contd.

U.S. Global Investors (Guernsey) Limited

IRELAND (FSA RECOGNISED)

GT Global - Contd.

Abbey National Dublin Investment Fund Plc

Hansol Korea Venture Fund

Scottish Mutual Intl Fund Managers Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GT Fund Managers - Contd.

ISLE OF MAN (FSA RECOGNISED)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

IRELAND (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171)

Eagle Star Intl Life – Contd.

Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

Finance International Ltd

Old Mutual International (Isle of Man) Ltd

PanEurolife societe anonyme

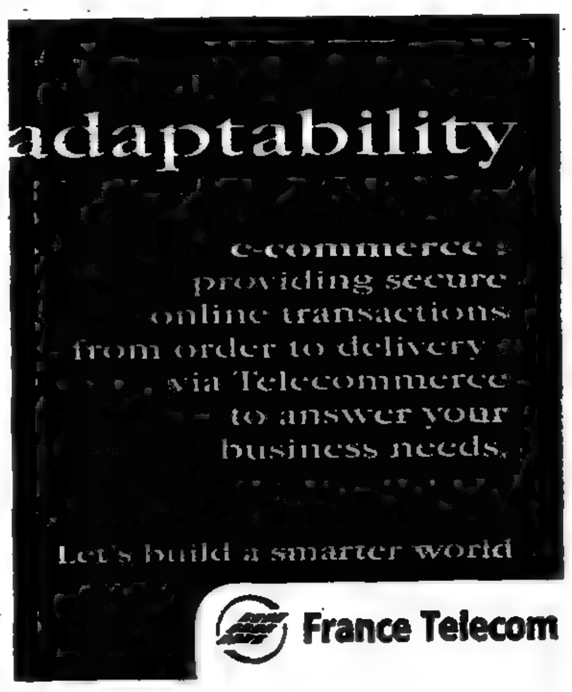
Premier Life

Royal & Sun Alliance Intl Financial Srvs

The American Trust Bank

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS



MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

FT Free Annual Reports Club

[illegible]

FT Cityline

[illegible]

The FT web site

[illegible]

Wall St fall erodes gains inspired by rate cut

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

The impact of an early burst of enthusiastic buying of UK stocks following the much-heralded reduction in domestic interest rates was wiped out by a poor early showing by Wall Street.

Before the kick-off in the US, the London stock market had responded positively to the 50 basis points cut in interest rates, the third downward shift in rates since October.

Dealers acknowledged that the cut was good news, but added that the market had long expected a cut of that magnitude, and that many had been expecting an even bigger reduction – a call for a cut of 100 basis points was given an enthusiastic welcome by the stock market earlier in the week.

Wall Street fell more than 100 points early yesterday as US investors fretted about the prospect of more problems in South America, especially Brazil, and amid worries that the economic woes in Asia may reappear.

A senior marketmaker in London said the 50 basis points reduction "has been in the price for some time".

He added that London was preparing itself for a period of low volumes in the run-up to European monetary union that could, he said, lead to extreme volatility in share prices.

Others insisted that London would have to face the prospect of a continuing stream of profit warnings. "There is a view that the new year and the onset of the euro will bring a sharp dose of reality to the UK market, which could well be made much worse if Wall Street hits choppy waters," was the feeling of one broker.

The FTSE 100 index swung in a near 100-point arc, sliding more than 50 points early in the day before rallying strongly in the wake of the rate cut and posting a 43-point gain, then slipping towards the close.

The last five minutes of trading saw the FTSE 100 flash both blue and red on the trading screens before finally dipping into negative ground and eventually closing 8.8 off at 5,660.3.

The second- and third-line stocks were briefly under pressure shortly after trading began, but rallied strongly as buyers moved into the market and never looked liked falling back.

The FTSE 250 ended 2.1 ahead at 4,780.0, having hit a session high of 4,785.2, while the FTSE SmallCap closed 3.2 higher at 2,020.7.

There was some disappointment that the previous day's takeover/merger stories did not materialise, but news that Wassall had increased its stake in BICC helped the latter's shares advance on hopes that the former may yet provoke a bidder to break cover.

Company news among the front-line stocks was mostly supportive of the market, especially good results from Compass, the catering group, and Racal Electronics, both of which featured in the FTSE 100 and 250 best performer tables.

Worries about the impact of sterling and the global economic downturn showed up vividly in Royal Doulton, the fine-china manufacturer, whose shares plummeted after a big restructuring involving about 1,200 job losses.

Turnover was a healthy 1.03bn shares by the 6pm count.

Zeneca suffers hangover

COMPANIES REPORT

By Peter John, Martin Brice
and Joel Kibazo

It was the day after the Lord Mayor's show for Zeneca as the stock came off the boil following its two-day, merger-inspired run.

There were the usual worries flying around – that the deal with Astra might not go through; that the deal might in fact go through very easily and prevent a premium counter-bidder emerging; that the cost cuts might be hard to achieve; that the fundamental outlook was weak.

Several analysts have been busily crunching the numbers and coming up with various share price forecasts depending on whether Zeneca gets into bed with Astra or not and seeing how the ratings might look after the consummation.

Dr Sally Bennett at Sutherlands said that, on a conservative p/e of 32 (Astra's rating), the shares looked fairly valued at yesterday's level. But, once the cost savings start to kick in, and if Zeneca manages to maintain its rating of 30 times earnings, the shares are worth £30.45 next year and £35 in 2000.

However, profit-taking overran the stock and the shares ended 121 off at £25.90.

A warning from Williams that its profits would be "around the lower end of current expectations" saw the shares fall as analysts edged forecasts down.

The stock was off 12 at 351p, one of the worst FTSE 100 performances. A consensus of forecasts for the year to December was £318m, and analysts were said to be easing the numbers down about 5 per cent. The range had been between £305m and £320m and a figure of about £305m-£310m is expected.

The company said growth was affected by turbulence in Asia and eastern Europe but this had been largely counteracted by the "recession-resistant characteristics" of the fire and security businesses.

W.S. Atkins was the best FTSE 250 performer on relief that talks on its purchase of Bovis Construction from P&O had collapsed.

W.S. Atkins stock had come under intense selling pressure as investors took fright at the prospect of a rights issue to fund the purchase, but yesterday it rose 77½ or 17 per cent to 532½p. P&O, which had been expected to raise about £350m by the sale of the construction company, was down 15 at 697p.

Racal Electronics was up 28¼ at 322p after announcing results at the top end of expectations and a joint venture with Thomson-CSF. However, there was increased pressure on margins and the operating result was slightly lower than before.

National Grid rose 14¼ to 505½p as Morgan Stanley raised its price target to 602p from 540p, with the price target for Energis – in which National Grid owns 74.3 per cent – upgraded to £16 from £12. Energis gained 84 to £13.16. A press report suggesting Securicor is struggling to meet demand for its products helped the shares harden 10 to 481p.

Colt Telecom was in demand ahead of a global telecoms conference hosted by Lehman Brothers. The shares jumped 53 or 6.1 per cent to 925p, the best performing stock in the FTSE 100 yesterday.

Bulls of Orange gained the upper hand in the stock. The shares appreciated 8 to 615p with Schroders reported to be fans of the stock and said to have reiterated a buy recommendation yesterday.

However the shares were weak initially after HSBC Securities widened its loss forecasts for 1998 and 1999, and slashed its profits forecast for 2000. For 1998 and 1999, HSBC is believed to have widened its loss estimates to £186m from £87m and to £123m from £1m respectively. For 2000, HSBC was said to have slashed its profits forecast for the group to £51m from £128m.

Orange caution

A weighty circular from Salomon Smith Barney sounded a cautious note on mobile operators saying: "While the European cellular market continues to set growth records and achieved a 20.4 per cent penetration by the end of September, increased regulation is starting to rear its ugly head."

There was further keen two-way interest in Caradon shares, which slipped 1½ more to 90½p. The company is thought to have reassured analysts about the outlook for the full year and is also said to be preparing a series of asset sales.

Misys fell 8 to 388p following the announcement that it is to leave the FTSE 100 index from December 21. Smiths, which is also to leave the Footsie, was up 9½ at 529p. Their ejection leaves the blue-chip index containing no information technology company, although traders suggested that because the IT sector was one of the few in which earnings growth was expected, one or more of the bigger IT stocks was likely to move back into the index, possibly early next year.

Stagecoach produced results at the top end of expectations, which prompted analysts to talk of edging their forecasts upwards, but profit-taking saw the stock more than 5 per cent or 12½ at 240p. Traders pointed out that the stock had risen by about 22p on Wednesday, buoyed by investor hopes that the acquisitive transport group might announce a deal. The shares were at 171p last year and touched 298p in recent trading.

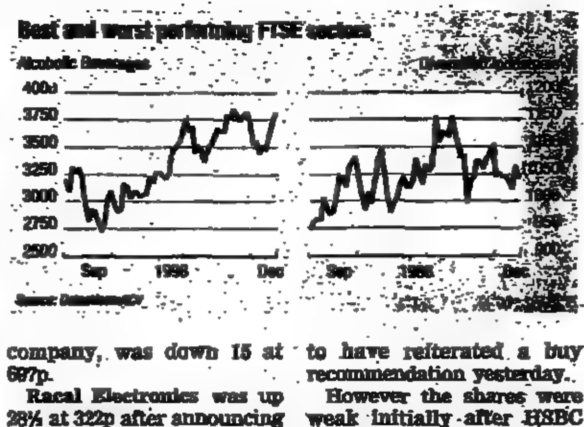
Railtrack continued to suffer in the wake of the rail regulator's announcement of a tougher pricing regime. The shares fell 40 to £14.17.

Reuters fell 7 to 549p but closed off lower levels with help from support in the US following an unusually bullish presentation to PaineWebber by Peter Job, the chief executive. Mr Job said analysts had substantially overestimated the company's vulnerability to volumes traded in financial markets and the consolidation of the banking industry.

United News & Media lost 22½ to 382p on nervousness ahead of a trading statement from the group today.

ICI rose 24½ to 591p on hopes that the US Federal Trade Commission would rule soon on ICI's sale of Tioxide to DuPont. Optimism was lifted by a trade press report that a ruling was expected this month.

The deal was originally expected to be completed by the end of this year's second quarter. The price tag is $750m and Tioxide is just one of the divisions up for sale as ICI struggles to reduce its debt burden.



FT 30 INDEX

	Dec 10	Dec 9	Dec 8	Dec 7	Dec 4	Yr ago	*High	*Low
FT 30	3410.7	3398.8	3405.3	3370.6	3387.2	3228.9	4004.9	2790.6
Ord. div. yield	3.07	3.08	3.09	3.11	3.11	[illegible]	4.22	2.72
P/E ratio net	21.87	21.79	21.72	21.53	21.58	20.95	25.41	19.88
P/E ratio nil	21.78	21.70	21.63	21.44	21.50	20.86	25.19	18.71

FT 30 since compilation: [illegible]

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3398.6	3390.6	3404.9	3412.3	3417.5	3411.6	3417.4	3409.1	3429.2	3364.9

STOCK MARKET TRADING DATA

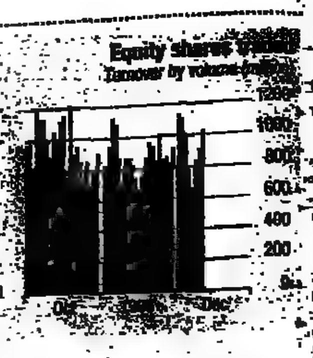
	Dec 10	Dec 9	Dec 8	Dec 7	Dec 4	Yr ago
SEAQ bargains	88,543	64,537	54,278	53,515	52,789	46,511
Equity turnover (£m)†	-	51,830	2671.2	2758.5	2602.3	2733.0
Equity bargains†	-	[illegible]	[illegible]	46,369	[illegible]	52,690
Shares traded (mil)†	-	808.9	707.5	847.1	754.0	789.3
Total market bargains‡	-	65,363	54,017	54,791	57,323	-
Total turnover (£m)‡	-	4362.1	3316.0	3397.8	3523.6	-
Total shs traded (mil)‡	*1030.9	982.0	881.6	1010.6	905.1	-
Tradepoint turnover (£m)	17.4	21.9	20.0	14.9	11.7	44.8
Tradepoint shs traded(m)	9.5	8.0	8.4	7.2	6.1	12.4

†Excluding intra-market and overseas turnover but including Crest turnover. ‡UK only total at 6pm. § UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	650	Total Highs	86	Total contracts	22,339
Total Falls	704	Total Lows	62	Calls	13,032
Same	1,582			Puts	9,277

Dec 10 *Data based on Equity shares listed on the London Share Service.



Indices and ratios

[illegible]

Best performing sectors

[illegible]

Worst performing sectors

[illegible]

FUTURES AND OPTIONS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE

AUSTRIA (Dec 10 / Sch)

BELGIUM/LUXEMBOURG (Dec 10 / Frs.)

CZECH REP (Dec 10 / Koruna)

DENMARK (Dec 10 / Kr)

FINLAND (Dec 10 / Mka)

FRANCE (Dec 10 / Frs.)

GERMANY (Dec 10 / Dm.)

GREECE (Dec 10 / Drachma)

IRELAND (Dec 10 / Punt)

ITALY (Dec 10 / Lire)

NETHERLANDS (Dec 10 / Fl.)

NORWAY (Dec 10 / Kroner)

POLAND (Dec 10 / Zloty)

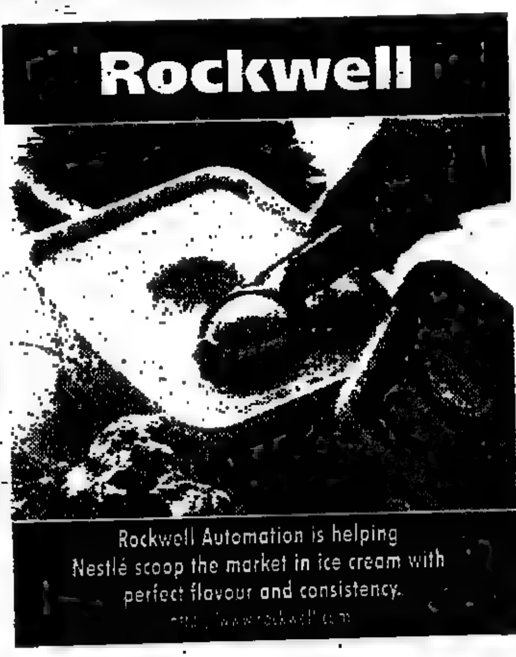
PORTUGAL (Dec 10 / Escudo)

SPAIN (Dec 10 / Pts.)

SWEDEN (Dec 10 / Kronor)

SWITZERLAND (Dec 10 / Frs.)

TURKEY (Dec 10 / Tk Lira)



PACIFIC

JAPAN (Dec 10 / Yen)

HONG KONG (Dec 10 / H.K.$)

INDONESIA (Dec 10 / Rupiah)

MALAYSIA (Dec 10 / MYR)

NEW ZEALAND (Dec 10 / NZ $)

SINGAPORE (Dec 10 / S$)

TAIWAN (Dec 10 / TW $)

THAILAND (Dec 9 / Baht)

AUSTRALIA (Dec 10 / Aust$)

SOUTH KOREA (Dec 10 / Won)

AMERICAS

CANADA

TORONTO (Dec 10 / Can $) 4 pm close

MONTREAL (Dec 10 / Can $) 4 pm close

MEXICO (Dec 10 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Dec 10 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY DECEMBER 9 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY DECEMBER 8 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	195.85	-0.4	175.15	145.81	169.82	211.30	-0.5	3.45	196.58	176.33	148.58	170.78	212.36	219.96	183.86	200.94
Austria (22)	186.54	-0.8	166.82	138.88	161.75	161.63	-0.9	2.16	187.98	168.61	142.08	163.31	163.18	253.73	165.45	191.89
Belgium (22)	388.81	0.2	347.71	289.47	337.16	329.94	0.0	2.05	387.97	347.99	293.23	337.04	329.80	398.52	250.39	254.30
Brazil (32)	146.66	-0.7	131.16	109.19	127.17	324.81	-0.7	2.79	147.76	132.53	111.68	128.36	327.24	259.34	102.68	230.93
Canada (119)	195.66	0.2	174.98	145.67	169.66	218.54	0.0	1.77	195.30	175.18	147.61	169.66	218.45	248.76	159.94	216.16
Denmark (34)	458.67	1.5	410.19	341.48	397.72	395.73	1.3	1.77	452.05	405.47	341.67	392.71	390.63	537.33	420.12	435.24
Finland (28)	523.03	-0.2	467.74	389.40	453.53	556.62	-0.3	1.54	523.84	469.87	395.93	455.08	558.48	527.05	267.59	292.33
France (75)	314.51	0.3	281.27	234.16	272.72	275.96	0.1	2.27	313.66	281.34	237.07	272.48	275.75	345.18	225.24	236.25
Germany (55)	262.65	-0.4	234.88	195.54	227.75	227.75	-0.6	1.42	263.78	235.80	198.37	229.16	229.16	325.61	218.59	227.62
Greece (35)	320.99	-0.9	287.06	238.98	278.34	643.37	-1.1	1.32	323.78	290.43	244.73	281.29	650.71	339.20	211.47	–
Hong Kong, China (67)	314.74	-0.7	281.47	234.32	272.92	313.06	-0.7	4.14	316.94	284.28	239.55	275.34	315.27	880.80	198.84	380.80
Indonesia (26)	51.74	1.4	46.27	38.52	44.86	238.04	2.5	1.28	51.02	45.76	38.56	44.32	232.00	95.04	19.04	84.55
Ireland (16)	501.48	1.1	448.47	373.35	434.84	474.63	1.0	2.05	495.90	444.80	374.81	430.80	469.90	560.44	387.89	409.57
Italy (53)	164.32	-0.1	146.95	122.33	142.48	202.68	-0.3	1.38	164.45	147.50	124.29	142.86	203.20	184.49	109.90	110.85
Japan (448)	101.58	2.5	90.84	75.63	88.08	75.63	0.9	0.99	99.13	88.92	74.93	86.12	74.93	109.73	78.83	100.67
Mexico (29)	1090.76	0.2	975.46	812.07	945.82	11874.52	0.4	2.16	1088.46	976.30	822.67	945.58	11830.43	1803.07	787.15	1732.15
Netherlands (26)	487.44	1.4	435.92	362.90	422.67	418.21	1.2	2.25	480.92	431.37	363.49	417.79	413.38	562.38	391.03	412.80
New Zealand (13)	53.21	-0.8	47.59	39.62	46.14	54.84	-0.1	5.82	53.66	48.13	40.56	46.61	54.88	82.77	45.68	82.77
Norway (38)	209.39	-2.0	187.26	155.89	181.57	214.76	-1.4	2.79	213.67	191.66	161.50	185.62	217.76	357.71	181.86	334.16
Philippines (22)	80.87	-2.9	72.33	60.21	70.13	155.78	-3.4	0.96	83.25	74.68	62.82	72.32	181.19	106.98	42.48	94.74
Portugal (18)	256.59	1.9	229.47	191.03	222.50	300.40	1.8	1.11	251.75	225.81	190.28	218.70	295.23	299.39	194.13	–
Singapore (41)	219.56	3.1	196.35	163.46	190.38	166.69	2.6	1.73	212.90	190.96	160.91	184.95	162.52	261.82	102.43	281.82
South Africa (39)	179.20	1.0	160.26	133.41	155.39	234.12	0.4	3.97	177.49	159.20	134.15	154.19	233.11	348.20	151.55	282.61
Spain (30)	386.38	1.6	345.54	287.66	335.04	415.58	1.4	1.91	380.38	341.19	287.50	330.45	409.66	417.73	266.90	273.12
Sweden (46)	525.46	5.7	469.91	391.20	455.63	626.35	4.9	1.86	497.12	445.89	375.73	431.86	597.24	628.19	379.16	484.55
Switzerland (30)	401.22	0.6	358.80	298.71	347.90	337.84	0.1	1.26	398.70	357.62	301.34	346.36	337.52	439.48	307.73	330.53
Thailand (35)	24.28	8.0	21.72	18.06	21.06	33.74	5.6	2.80	22.90	20.54	17.31	19.90	31.85	33.84	8.15	24.85
United Kingdom (208)	363.72	1.2	325.27	270.79	315.39	325.27	0.9	3.02	359.47	322.43	271.69	312.28	322.43	401.84	307.96	333.98
USA (620)	484.94	0.1	433.88	361.04	420.50	484.94	0.1	1.34	484.59	434.65	366.26	420.97	484.59	488.63	379.74	397.90
Americas (800)	431.11	0.1	385.54	320.96	373.83	365.68	0.1	1.37	430.80	386.41	325.60	374.25	365.43	437.03	349.40	361.46
Europe (737)	343.74	0.8	307.40	255.91	298.06	310.52	0.6	2.16	340.91	305.78	257.86	298.15	308.81	386.24	279.29	288.07
Eurobloc (345)	99.46	0.3	88.95	74.05	86.25	93.36	0.1	1.84	99.14	88.92	74.93	86.12	93.22	113.28	81.53	–
Nordic (146)	479.47	3.1	428.79	356.97	415.76	481.64	2.6	1.85	464.99	417.07	351.44	403.95	469.23	555.97	360.04	422.98
Pacific Basin (731)	108.98	1.8	97.47	81.14	94.50	83.99	0.7	1.52	106.94	95.92	80.83	92.90	83.42	119.48	82.88	112.10
Euro-Pacific (1468)	206.50	1.1	184.67	153.74	179.06	168.89	0.6	1.97	204.14	183.10	154.29	177.34	167.90	220.19	166.00	185.50
North America (739)	465.39	0.1	416.19	346.48	403.55	466.61	0.1	1.36	465.03	417.11	351.48	403.98	466.27	489.20	367.39	366.38
Europe Ex. UK (529)	321.95	0.7	287.92	239.69	279.17	293.98	0.4	1.78	319.83	286.87	241.73	277.84	292.81	368.32	250.03	257.24
Europe Ex. Eurobloc (392)	93.82	1.4	83.90	69.85	81.35	92.51	1.0	2.51	92.56	83.02	69.95	80.41	91.61	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (184)	96.23	1.7	86.05	71.64	83.44	91.25	1.2	1.49	94.59	84.84	71.49	82.17	90.17	109.21	75.16	–
Pacific Ex. Japan (285)	181.71	-0.2	162.50	135.28	157.66	167.00	-0.3	3.59	182.08	163.32	137.62	158.18	187.51	218.04	128.26	213.56
World Ex. Eurobloc (1962)	101.36	0.6	90.65	75.46	87.89	100.01	0.9	1.61	100.76	90.38	78.16	87.54	99.68	103.16	83.09	–
World Ex. US (1687)	206.75	1.1	184.00	153.18	178.41	173.62	0.8	1.98	203.53	182.55	153.83	176.81	172.65	221.91	165.95	180.30
World Ex. UK (2099)	289.21	0.5	258.64	215.32	250.78	257.47	0.2	1.49	287.82	258.16	217.54	250.04	256.86	298.02	234.66	249.13
World Ex. Japan (1861)	392.41	0.3	350.93	292.15	340.26	380.86	0.2	1.72	391.12	350.82	295.61	339.78	379.99	411.23	318.78	334.37
The World Index (2307)	295.86	0.6	264.40	220.11	256.37	283.79	0.3	1.64	294.03	263.73	222.23	255.43	263.00	308.58	242.08	258.34

 CONSTITUENT CHANGES WITH EFFECT 11/12/98: Deletions: Fokus Bank (Norway) and Hoegh/Gerneaux-Pack (Norway). Latest prices were unavailable for this edition.

Emerging markets

IFC investable indices

Dollar terms

Dec 9 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	809.93	-1.5	-27.4
Brazil	297.61	-0.8	-38.3
Chile	452.23	-2.4	-28.6
Colombia[1]	414.95	-0.8	-49.7
Mexico	483.16	+0.1	-41.2
Peru[2]	138.99	-2.1	-37.2
Venezuela[3]	645.82	+23.3	-40.4
East Asia			
China[4]	28.53	+1.9	-48.4
India[1]	61.72	+0.1	-26.0
Indonesia[5]	25.53	-1.4	-24.2
Korea[4]	47.59	+3.8	+97.8
Malaysia	84.55	+2.4	-7.2
Pakistan[6]	90.69	-2.3	-63.5
Philippines	113.78	-2.3	+0.9
Sri Lanka[10]	74.32	-0.1	-36.1
Taiwan, China[6]	127.80	-0.9	-9.4
Thailand	64.96	+3.4	+38.2
Europe			
Czech Rep	46.97	+0.5	-14.2
Greece	574.58	-0.7	+77.4
Hungary[8]	258.23	+0.1	-17.9
Poland[12]	498.76	+1.1	-16.4
Portugal	289.99	+2.2	+36.9
Russia	22.32	-3.8	-85.0
Slovakia	40.61	+1.5	-59.1
Turkey[14]	138.98	-4.0	-55.5
Mideast/Africa			
Egypt	82.16	-0.7	-33.3
Israel	103.56	+0.3	-14.9
Jordan	212.91	+0.5	+1.3
Morocco	167.27	-0.1	+28.4
S Africa[15]	117.89	+1.1	-34.4
Zimbabwe[16]	98.71	+2.0	-60.8
Regions			
Composite	184.75	+0.1	-24.9
Latin America	428.23	-0.4	-36.8
Asia	106.85	+0.7	-0.8
EMEA	109.07	+0.2	-26.1
Europe	142.30	-0.3	-24.5
Eastn Europe	54.41	-0.3	-61.2
ME & Africa	51.45	+0.7	-28.1
Comp + Malay	187.03	+0.3	-24.0
Asia + Malay	108.94	+1.0	-0.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Jan 6 1992; (8)Sep 30 1993; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1996; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

NEW YORK STOCK EXCHANGE PRICES

4 pm close December 10

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

[illegible]-new yearly low. P/E price-earnings ratio. [illegible]-volume. [illegible]-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
[illegible] Dealings Suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 9	Dec 8	Dec 7	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9009.19	9027.98	9070.47	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	107.17	108.90	108.98	107.37 (9/12)	104.42 (7/15)	107.17 (9/12/98)	54.99 (1/10/97)
Transport	3063.80	3016.45	3116.83	[illegible] (16/4)	2345.00 (9/10)	[illegible] (16/4/98)	13.23 (8/7/32)
Utilities	308.75	307.71	308.46	328.81 (8/10)	262.85 (9/1)	328.51 (8/10/98)	10.58 (8/2/32)

DJ Ind. Day's high 9138.18 (9153.53) Low 8881.23 (8903.27) (Theoretical)
Day's high 9050.80 (9068.75) Low 8868.57 (8945.89) (Actual)

Standard and Poors	Dec 9	Dec 8	Dec 7	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1182.49	1181.38	1187.70	1192.28 (27/11)	927.98 (9/1)	1192.28 (27/11/98)	4.40 (1/6/32)
Industrials♥	1420.38	1416.85	1420.84	1421.33 (27/11)	1077.40 (9/1)	1421.33 (27/11/98)	3.52 (30/6/32)
Financial♥	128.28	128.15	128.75	147.88 (14/7)	95.89 (8/10)	147.88 (14/7/98)	7.13 (1/10/74)
Others							
NYSE Comp.	574.78	574.92	577.33	600.35 (17/7)	477.20 (8/10)	600.35 (17/7/98)	4.84 (25/4/42)
Amex Comp.	688.02	688.25	684.34	753.87	563.75	753.87	524.29
				[illegible]	(8/10)	[illegible]	[illegible]
NASDAQ Comp	2050.42	2034.75	2048.84	2050.42 (9/12)	1419.12 (8/10)	2050.42 (9/12/98)	54.87 (31/10/74)
Russell 2000	401.98	401.48	401.17	481.41 (21/4)	330.28 (8/10)	481.41 (21/4/98)	123.38 (31/12/80)

RATIOS

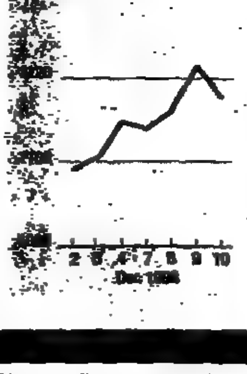
	Dec 4	Nov 27	Nov 20	Year ago
Dow Jones Ind. Div. Yield	1.69	1.65	1.68	1.88
	Dec 2	Nov 25	Nov 18	Year ago
S & P Ind. Div. yield	1.22	n/a	1.25	1.46
S & P Ind. P/E ratio	35.71	n/a	33.63	26.33

US DATA

MARKET ACTIVITY — [illegible]

NYSE TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS — [illegible]

NASDAQ TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS — [illegible]



JAPAN

Nikkei 225 — [illegible]

TOKYO TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS — [illegible]

GERMANY

DAX — [illegible]

FRANKFURT TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS — [illegible]

FRANCE

CAC 40 — [illegible]

PARIS TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS — [illegible]

UK

FTSE 100 — [illegible]

LONDON TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS — [illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	992.50	1185.00	+0.50	1185.90	1176.40	[illegible]	[illegible]
Mar	1195.00	1197.00	+0.40	[illegible]	1188.00	[illegible]	[illegible]
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	14940.0	14780.0	−230.0	15030.0	14750.0	[illegible]	[illegible]
Mar	14920.0	14750.0	−230.0	15040.0	14750.0	[illegible]	[illegible]

Open interest figures for previous day.

CAC-40, DAX, FTSE 100 — [illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close December 10

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close December 10

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Ericsson sets alarm bells ringing on profits

WORLD OVERVIEW

Warning bells from Ericsson on profits for the final quarter of this year and the whole of 1999 provided the dramatic highlight on a dull day for most equity markets, *writes Michael Morgan*.

A wholesale switch back into equities handed Seoul the starring role among Asian markets as the won strengthened in spite of further weakening in money market and bond yields.

And in the Americas, Caracas slumped 12 per cent in late morning trade as the market ran into profit-taking after the euphoric 46 per cent surge over the previous two sessions.

The pullback came as analysts cautioned overenthusiastic investors that although president-elect Hugo Chávez had emphasised market friendly measures such as cutting public spending and a further agreement with the IMF, he had yet to clarify any specific policies.

In Europe, Ericsson's profits warnings for this year and next took many investors by surprise. One analyst said that September's profits warning from France's Alcatel should have sown seeds of doubt about the outlook for all telecommunications equipment manufacturers.

The market's immediate response was a 23 per cent crash in Ericsson's share price although it subsequently recovered some of the lost ground to close 16 per cent lower on the day.

Finland's Nokia felt some of the backlash, in spite of its assurance to analysts last week that 1999 prospects were strong, as did Alcatel.

There was little to cheer the rest of Europe as the dollar struggled to hold above one-month lows against the D-Mark and yen and Wall Street extended opening falls at midsession.

The oil sector had another gloomy day as depressed oil prices hit new lows and threatened to sink further.

The breakdown of merger talks between Ciba and Clariant, the two Swiss speciality chemicals groups, announced after the market closed on Wednesday did, however, provide a crumb of comfort for their rivals. In Germany, BASF and Degussa both closed higher in a weakening market.

Analysts believe that while it is going to be harder to make money on Wall Street next year as corporate profits disappoint, there will still be rich pickings in Europe and Asia.

A quarterly poll of analysts by Reuters found that possible economic disruptions from the 2000 computer bug posed the biggest question mark over how markets would behave next year, but there was much less concern over the launch of European monetary union.

Dow sell-off triggered by commodities

AMERICAS

Wall Street turned broadly bearish in early trading as earnings concerns and falling commodity prices triggered a fresh wave of selling. The Dow Jones Industrial Average was more than 100 points lower by midday, *writes John Labate in New York*.

Worries continued that overseas weakness would hit profits to a greater extent than expected, with a raft of blue-chip companies issuing earnings warnings in the last week. Falling oil and commodity prices yesterday sent investors out of major shares and into Treasuries.

"Investors have become more cautious and there's a signal being sent to us that the global financial crisis is not finished," said Hugh Johnson, chief investment officer at First Albany.

By early afternoon, the Dow was down 101.18 or 1.1 per cent at 8,908.01, while the broader Standard & Poor's 500 had lost 11.28 to 1,172.22.

Blue-chip shares bore the brunt of yesterday's selling. Among Dow cyclicals, Minnesota Manufacturing & Mining sank $2⅞ to $75. Merck, the pharmaceutical producer, fell $3¾ to $148¾ the day after it lowered analysts' estimates of its 1999 earnings.

But Procter & Gamble gained ground, up $1⅛ to $85⅝ a day after its own warning as Goldman Sachs upgraded the stock to "market outperform". Philip Morris plunged $2⅛ to $52⅞ after Nicaragua launched a lawsuit against major tobacco companies and speculation mounted that Brazil would file its own suit.

US Treasuries soared as equities sold off, with the 30-year benchmark bond up ⅞ to 104⅞, sending the yield lower to 4.940 per cent.

High-techs were also lower, sending the Nasdaq composite index off 13.13 or 0.64 per cent to 2,037.29. Some shares bucked the downward trend, including major networking shares. Cisco Systems climbed $2⅛ to $83⅛ while 3Com gained 81% to $45¾ after analysts at Morgan Stanley Dean Witter raised the price target for both stocks.

The third largest US initial public offering was launched as Infinity Broadcasting floated. By early afternoon Infinity's shares were at $23⅜, more than 15 per cent above the offer price.

TORONTO tracked Wall Street lower in early trading, hit by weak energy prices and a dull opening session for the banks. At noon, the 300 composite index was off 38.40 at 6,367.80.

A bad day for oil prices sent Imperial Oil down 85 cents at C$25.95 and pushed Renaissance Energy off 40 cents at C$17.70. In metals, Inco shed 60 cents at C$18.35.

Royal Bank of Canada softened 5 cents to C$74.25 and Bank of Nova Scotia dipped 20 cents to C$33.80. Drinks and entertainments giant Seagram met heavy selling, sliding C$1.65 to C$53.60.

Golds provided most of the upside with Barrick adding 75 cents at C$29.35.

Stockholm slips on warning

EUROPE

The profits warning by Ericsson, the telecommunications company, helped send *STOCKHOLM* sharply lower.

Ericsson shares were down 22.9 per cent at one stage before rallying to close at SKr199, a loss of SKr38.50 or 16.2 per cent. The general index finished 154.27 or 4.7 per cent lower at 3,150.12.

Ericsson said its fourth-quarter profits would be 15 to 20 per cent below expectations due to a drop in global demand. It added that its announcement of its full-year results on January 28 would include plans to cut as many as 10,000 jobs.

The profits warning ended a two-month surge in the Ericsson share price that began after the company announced a long-awaited restructuring programme. Wednesday's closing price of SKr237.50 was almost double the October 8 level of SKr122.

The FTSE Eurotop 300 index fell 9.03 or 0.08 per cent to 1,114.17. See Euro Prices page.

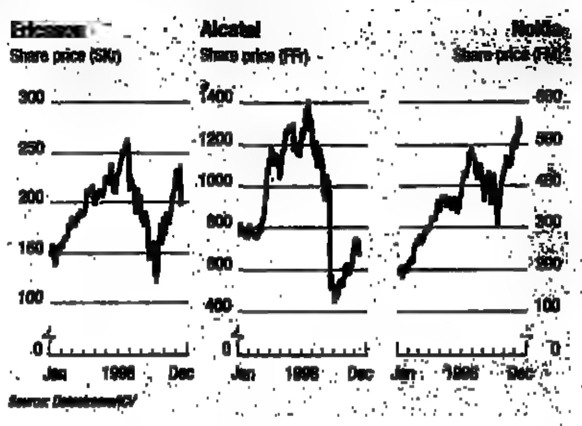
Mats Nystrom, a telecommunications analyst at Enskilda Securities in Stockholm, expressed surprise that the company had not given clearer signals about its weak performance in the fourth quarter.

HELSINKI felt the effects of Ericsson's revelation, which depressed the share price of market leader Nokia.

The Hex index ended 84.26 or 1.6 per cent down at 5,047.15. Nokia, which accounted for about 80 per cent of the total trade of FM2.11bn, fell FM16.50 or 3.0 per cent to FM535.

FRANKFURT ended 26.27 lower at 4,650.30 on the Xetra Dax index to extend its decline to 182 points in five days.

Dresdner Bank gained DM2.10 to DM70.50 on upbeat dividend news, but the broad trend was visibly downwards with sellers still firmly in command. Cyclicals soaked up most of the day's selling.



Linde shed DM26.40 at DM853.20 and Viag came off DM22.5 at DM929. Man managed to contain its losses to 10 pfg at DM478.75 thanks to a forecast rise in earnings this year. Computer leader SAP lost DM25 at DM755.

Deutsche Telecom came under pressure from competition concerns, losing 90 pfg at DM48.90 after telecoms rival Mobilcom forecast strong fourth-quarter trading.

PARIS traded higher for most of the session, but swung into the red as Alcatel met with heavy selling. The shares fell steeply in heavy turnover of FFr1.4bn in the wake of the profits warning from Swedish telecoms equipment leader, Ericsson. They ended off FFr52 or 7.3 per cent at FFr665 after a session low of FFr[illegible].

Speculation that the planned link between Rhône-Poulenc and Germany's Hoechst could be widened to include Clariant of Switzerland helped lift Rhône FFr7.10 to FFr287. The CAC 40 index closed off 25.64 at 3,746.97.

AMSTERDAM ended little changed after early gains at Philips were pared. The AEX index closed at 1,092.65, up 0.66.

Philips continued to push higher in early trading, rising to Fl 133.50 as the PolyGram disposal was completed, bringing Fl 11.5bn in cash proceeds to the group. But the Ericsson upset rapidly reversed sentiment and the shares ended off Fl 4.40 at Fl 126.10.

Elsewhere among technology-based stocks, Baan tumbled Fl 1.40 or 6.6 per cent to Fl 19.80 in spite of initiated coverage by JP Morgan which argued that the software group had potential for recovery.

Luxury label group Gucci moved ahead on the back of solid third-quarter results and news of a share buy-back. The stock rose Fl 10 or 12 per cent to Fl 93.80.

ZURICH traded lower as the market digested Wednesday's announcement of the abandoned merger between specialty chemicals giants Ciba and Clariant.

Ciba, still with some restructuring to do, was the harder hit, falling to a low of SFr108.25 before recovering to close 75 centimes down on the day at SFr115. Clariant put on SFr6 to SFr619.

Last month, the pair unveiled a plan for a merger of equals that would have created the world's biggest company in the sector. They said the talks had been abandoned after due diligence turned up a series of major risks that would have undermined the deal.

Elsewhere, Danzas soared SFr147 to SFr582 after Germany's Deutsche Post, the government-held postal authority, announced it planned to acquire the Swiss freight group in a SFr1.55bn deal aimed at gaining a bigger share of the global logistics market.

Swatch Group put on SFr15 to SFr780 in a rally inspired by hopes of good Christmas sales.

The SMI index closed with a loss of 115.1 to 6,699.1.

MADRID followed other European bourses lower despite a strong showing by electricity companies. The general index lost 9.55 or 1.1 per cent to end at 880.16.

Electricals were led higher by Cantabrico, up Pta120 or 1.7 per cent to Pta7,280 on news it had signed a power-trading deal with Eastern Group of the UK.

Written and edited by Jeffrey Brown, Michael Peel, Paul Grogan and Peter Hall

Mexico City looks for direction from Wall St

MEXICO CITY traded narrowly in low morning volumes with investors said to be assessing their positions after Wednesday's 25-point gain for the IBC index. The early setback on Wall Street kept a tight rein on sentiment.

"We're doing nothing at the moment. All eyes are on Wall Street and Caracas," said one broker. At midsession, the benchmark was off 16.62 at 3,788.90.

SAO PAULO rallied modestly with the Bovespa index up 48.00 at 7,621 at midsession. However, traders said volumes were nominal and that sentiment remained very fragile.

The benchmark has fallen 12 per cent this month in the wake of parliamentary defeats for the government.

SANTIAGO also clawed higher, adding 0.52 to 74.55 on the IPSA index at midsession.

IT demand lifts all share

SOUTH AFRICA

Johannesburg made modest upward progress for the second day running to leave the all share index 15.4 ahead at 5,251.4.

Financials rose 0.8 per cent to 7,865.6 and industrials, boosted by solid demand for IT shares, added 1 per cent to 5,966.8.

Dimension Data jumped 9.2 per cent to R22.50 in heavy trading volume.

Golds rallied, with the sector index improving 0.7 per cent to 949.1.

Seoul makes best one-day gain

ASIA PACIFIC

South Korean equities racked up their best ever one-day gains in record volume. In SEOUL, the benchmark composite index was up 41.09 or 7.8 per cent to 567.61 for a two-day advance of 11.1 per cent.

Brokers said investors rushed to buy shares as the won strengthened in spite of further softening for money market and bond yields. The overnight call rate came down 15 basis points to 6.75 per cent, prompting heavy switching into equities.

Rising shares outpaced fallers by more than 10 to one and turnover at Won3.14bn trampled the previous high of Won2.58bn. Among leading stocks, Samsung Display went limit up at Won65,500 after an upbeat trading statement.

Financials were also buoyant, notably those companies gaining from the upturn in stock market trading volumes. The securities company index jumped 14.3 per cent.

TOKYO paused for breath after a string of gains and the Nikkei average closed down for the first time in four days, *writes Michiyo Nakamoto*.

The benchmark reached a high of 15,007.01 before closing at 14,907.80, down 124.10 and just above the low for the day of 14,807.40.

Trading activity was sluggish ahead of the special quotation settlement of December futures today. Next week's announcement of the quarterly *tankan* business sentiment survey from the Bank of Japan also encouraged caution.

Volume was light at 360m shares, compared with 368m on Wednesday. Gaining shares outpaced losing issues by 616 to 508 while 163 issues were unchanged.

The broad-based Topix index edged 0.96 lower to 1,139.78, while the Nikkei 300 eased 0.58 to 228.03.

Nippon Credit Bank, believed to be one of the most troubled in the sector, fell Y11 to Y163 in heavy trading. The issue, the third most actively traded, was hit by news that a merger it had been discussing with another trust bank had failed to materialise.

High-tech issues attracted attention after the Nasdaq composite index surged to an all-time high overnight in New York.

Toshiba, a company favoured for its restructuring efforts, was the second busiest issue, gaining Y12 to Y710. Mitsubishi Electric rose Y6 to Y311.

SINGAPORE made a solid advance for a third day on heavy trading underpinned by positive comments by several big US brokers.

The Straits Times index closed 15.29 or 1.1 per cent higher at 1,439.88. Volume jumped to 531.5m shares, compared with 296.15m on Wednesday.

DBS Bank moved forward after it announced it was cutting its prime interest rate by 50 basis points to 5.5 per cent. The stock gained S$0.10 or 1.3 per cent to S$7.95.

MANILA recovered after two days of losses in what brokers called a technical rebound. The composite index jumped 52.89 or 3 per cent to 1,822.23. The exchange shed 3.5 per cent in the previous two days.

Investors reacted positively to news that Benpres Holdings, the conglomerate, had raised its stake in Philippine Commercial International Bank, which rose 3 pesos or 2.3 per cent to 131 pesos.

JAKARTA was higher, helped by a significant fall in central bank short-term rates, and the composite index finished 4.89 ahead at 403.67. However, continuing concern about civil unrest in the capital kept the lid on the market while renewed demand for second-liners was attributed to window dressing.

Some banking stocks were actively traded on the back of the lower interest rates and the government's plans to recapitalise banks.

Among the second-liners, glass and ceramic producer Mulia Industrindo, usually fairly dormant, was the most active stock of the day, jumping Rp75 to Rp375 in volume of 27.6m shares.

KARACHI climbed 2.1 per cent as renewed demand for blue chips was spurred by news that the Asian Development Bank would quickly resume lending once the IMF restarted credit to Pakistan. Speculation that Hubco's tariff row with the government was close to a settlement also served to lift the mood.

The KSE-100 index closed 19.07 higher at 949.36.

EMERGING MARKET FOCUS

Euphoria greets Chávez victory

Once again Venezuela's stock exchange surprised the world with its tropical temperament. Instead of a widely expected plunge following the election of populist Hugo Chávez in last Sunday's presidential elections, the Caracas stock exchange (BVC) surged 41.6 per cent in two days.

Tuesday's 22.2 per cent jump was the largest single-day increase since February 1994 and Wednesday saw a six-month high, according to the BVC. Yesterday, the market surged five per cent in early trading to 5,996, only to plummet more than 12 per cent by noon as investors took profits.

"There had to be a correction. The past days were senseless euphoria," says Miguel Octavio, chief analyst with Bancaracas brokerage.

Underlying the dramatic upsurge, analysts say, was the conciliatory tone of Mr Chávez towards his political adversaries following one of the most bitter elections in the country's history.

Mr Chávez also indicated he could abandon some of his radical interventionist proposals for more orthodox policies. Reassuring investors, he said his government would honour foreign debt obligations, respect private property, adhere to fiscal discipline, and crack down on tax evasion.

Political uncertainty and repeated speculative attacks on the bolivar had caused the market to fall 70 per cent in dollar terms for the year to December 4.

Yet Mr Chávez insisted he had not changed his stance and said the rally was due to the perception that the transition of government and the reform of the country's economic and political regime were "democratic and peaceful". He and his supporters had shown they were not the "savages" they were made out to be, Mr Chávez said.

With the immediate threat of political instability dissipating, interest rates are beginning to fall. The yield on the central bank's monetary stabilisation bonds this week fell five percentage points. The 61-day TEMs fell to 33.9 per cent.

Pressure on the currency has also lifted. The bolivar appreciated to a four-month high of 565 bolivars to the dollar, compared to 575.75 bolivars before polling.

Yet most analysts agree the future of the rally depends on stronger commitments by Mr Chávez towards market policies. "So far the rally is based only on words. We need to see more concrete measures," says José Felix Luzón, head of Westfalia brokerage in Caracas.

Mr Chávez has announced initial talks with the International Monetary Fund in coming days. The outcome will provide a key indication of the government's real orientation, said Mr Luzón.

The government-elect, which takes office on February 4, will face immense economic difficulties, including a budget deficit estimated at between 7 and 9 per cent, negative economic growth and the lowest oil prices in more than 10 years.

Standard & Poor's has maintained its negative view on Venezuela's B-plus long-term foreign currency sovereign credit rating.

Raymond Colitt

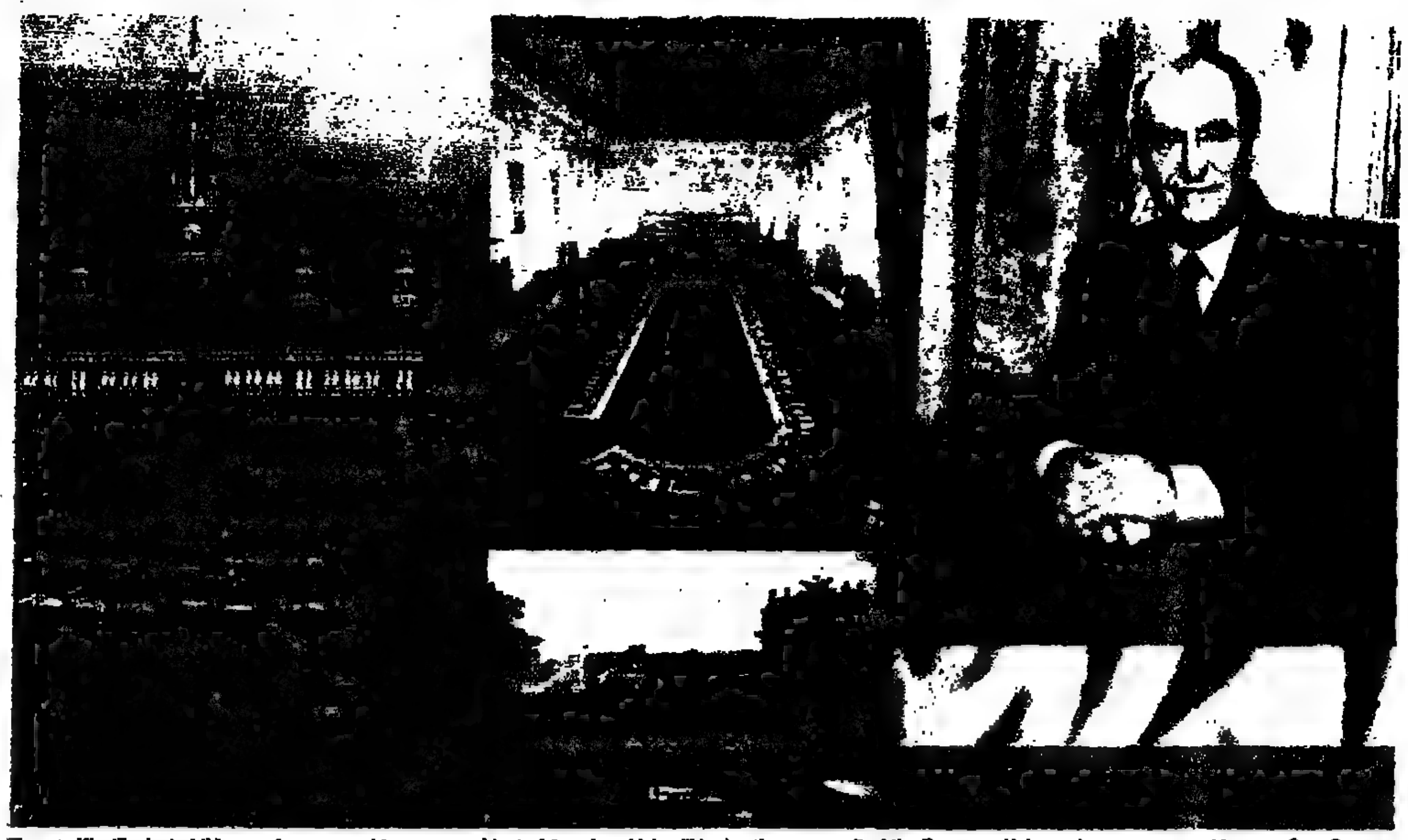
FINANCIAL TIMES SURVEY http://www.FT.com

AUSTRIA

FRIDAY DECEMBER 11 1998 Annual country review

From outpost to centre stage in just 10 years

With a strong economy and political stability, the country's only clouds on the horizon are potential difficulties when the EU is enlarged and questions about its war-time record, says **William Hall**



Thomas Klestil, elected this year for a second term as president of Austria, which will be hosting a summit of the European Union today Montage: Gary Cummins

As Austria's chancellor, Viktor Klima, hosts the European Union summit which begins today in Vienna, he could be forgiven for feeling a touch of pride as Austria resumes its role at the centre of Europe's political stage.

Ten years ago Austria was not a member of the EU, but a frontier outpost facing the eastern bloc. Today, it is firmly embedded in the EU and Vienna is once again a regular port of call for Europe's politicians.

Influence in European affairs is another matter. Mr Klima is not in the same league as Prince Metternich, Austria's most famous chancellor. And the history books will not devote anywhere near as much space to this week's European summit as they did to Metternich's Congress of Vienna in 1814-15. Then, Austria, Russia, Prussia, Great Britain et al produced the most comprehensive treaty Europe had ever seen. Nevertheless, Austria has acquitted itself reasonably well during its first six-month spell in charge of the EU agenda.

Mr Klima, a former oil company executive and Austrian finance minister, can also feel rather proud of the Austrian economy, which is once again growing faster than the EU average. While the rock-bottom performance of the Austrian stock market over the last decade might suggest that the country was ripe for a change of government, the real Austrian economy is telling a very different story.

Inflation is at its lowest level in more than a decade, exports are booming and Austria is one country which has little to fear from the arrival of the euro. Its currency has been pegged to the D-Mark for nearly 20 years, so it knows what life is like inside a monetary union. Unlike Italy or Spain, Austria has not been able to devalue its way out of economic problems when its wage rates got out of line with those of its competitors.

Fears that Austria will be one of the main casualties of any fall-out from Russia's financial turmoil have also been over-stated. As often is the case with Austria, there is a yawning gap between image and reality. Moscow, unlike Budapest or Prague, is not next door to Vienna. It is 2,000kms away, and while some of Austria's banks are more exposed than they should be to Russia's economic turmoil, most Austrian companies have escaped unhurt. Less than 2 per cent of Austria's exports go to Russia and most of its trading partners are now much more closely linked to the prosperity of western Europe than eastern Europe.

The health of Austria's economy is mirrored in the approval ratings of the Austrian government, one of the longest running socialist-led coalitions in Europe. There is no sign of the same pressure for political change as there was in the UK in 1997 and Germany earlier this year. Mr Klima's popularity has been increasing, while that of his most dangerous opponent, Jörg Haider, leader of the far-right Freedom party, has been waning. Opinion polls regularly give Mr Klima's Social Democrats a 40 per cent share of the vote, well ahead of the conservative People's party, led by Wolfgang Schüssel, Austria's foreign minister.

The number of socialist party members in "Red" Vienna, the party's heartland, has, however, nearly halved over the last 13 years, although this does not appear to be concerning Mr Klima's party managers, who are reinventing a "New Left" party. In terms of socialist politics, Mr Klima's ideas are closer to those of Tony Blair, Britain's prime minister, than Oskar Lafontaine, Germany's new finance minister.

Mr Klima is nonetheless an astute enough politician to realise that his current approval ratings are not cast in stone. Next year, Austria faces its first European and national elections since he became chancellor and there are already a few clouds on the horizon.

One potential problem he appears to have contained so far is the renewed international interest in Austria's war-time record when the country was annexed by Germany. Austria is determined not to make the same mistake as Switzerland, its neutral neighbour, whose international humanitarian image has been tarnished by its slowness in coming to terms with the shadows in its second world war past.

However, Austria has an even more difficult case to answer. Unlike Switzerland, it welcomed the Nazis and more than 65,000 Austrian Jews perished as a result. At the beginning of the second world war there were 180,000 Jews living in Vienna. Within months of the "Anschluss" most had been driven into exile and their property expropriated. Adequate compensation for Jewish property could cost billions of dollars.

In the past, Austria's bureaucracy has run a close second to the Swiss banks when it comes to an unhelpful and insensitive treatment of Jews seeking the return of their property. The Austrians, though, have become much more co-operative. Nearly 1,000 looted works of art have been discovered in federal museums and the government has set up a historical commission to look into the whole range of looting, theft and expropriation that took place after Germany annexed Austria in March 1938.

A second problem on the horizon is EU enlargement. Austria controls more than a third of the EU's external borders with countries seeking EU membership. No other country will stand to benefit so greatly from the opportunities of enlargement. On the other hand, no other country will be affected to the same extent by the potential problems arising during the transitional phase.

If enlargement is successful, then Vienna could become the hub of the most dynamic region in Europe. Austria has already derived considerable benefits from the opening up of the east. An estimated 100,000 new jobs have been created and Austria's exports to eastern Europe have trebled over the decade. Nevertheless, Austrians are worried by the prospect of an influx of cheap labour.

Mr Klima stresses that he has no interest in delaying enlargement. But he also does not want to be tied down to dates and wants a long transition period for the free movement of workers after enlargement. "It cannot be in Austria's interests to have its labour market destroyed through daily or weekly commuters," he says in an interview (see page 2). It is also not in the interests of the applicant countries. "They do not want to drag the rest of Europe down to their social and economic level but want to rise up to the European level step by step," says Mr Klima.

Mr Klima is confident that he can win Austrians round to enlargement in the same way that he has demolished opposition to the euro. A year ago, only 25 per cent of the population supported the euro. Today, two-thirds of the population support the single currency and recent opinion polls suggest that opposition to EU enlargement is slipping.

But Austria could well face more of a challenge winning round Austria's old allies in the region. Romanian president Emil Constantinescu, in a recent Austrian newspaper interview, said that he was disappointed with the Austrian EU presidency. "Austria is a country which knows us best. But today, Vienna's face is only pointed to the West," he said.

It is a view that will strike a chord with many of Austria's old allies in central Europe.

THE ECONOMY by William Hall

Exporters bring back the sparkle

The impact of Russian and Asian woes has been limited

Opel has made a heavy investment in its Vienna-Aspern factory where its new 3-cylinder ECOTEC engine is being produced Picture: AP

The Austrian economy has finally started to sparkle. After several years of below-average growth, gross domestic product increased by 4.2 per cent in the first half of 1998 and for the full year will probably grow by more than 3 per cent, its best performance in six years.

Josef Christl, Creditanstalt's chief economist, says part of the reason why Austria appears to be growing considerably faster than its European partners is that the first quarter of 1997 was very slow. In addition, the tourism and construction industries have turned in a better-than-expected performance.

However, the real reason why the economy has started to hum has been exports, which rose 10 per cent to Sch337bn in the first six months of 1998. Exports to Germany, which account for around 40 per cent of the total, increased 11.3 per cent and those to Italy, which accounts for another 10 per cent, were also up sharply.

Almost two-thirds of Austria's exports now go to fellow members of the European Union and, while it has trebled its exports to eastern Europe since the collapse of the Iron Curtain, the region still accounts for less than 18 per cent of Austria's export trade.

Although Austria is often singled out as an obvious casualty of Russia's financial crisis, the facts do not support this argument. In the first half of 1998 exports to Russia accounted for just 1.2 per cent of Austria's total.

Meanwhile, the impact of the Asian financial crisis on Austrian exporters has also been more limited than often supposed. Admittedly, exports to countries such as Japan, South Korea, and Indonesia have slumped.

But in the first six months of the year Asia only accounted for 5 per cent of Austria's exports and the slowdown in the Far East has been more than offset by exports to North America, which rose 17 per cent in the first half of the year.

"Our exports are heavily influenced by European Union consumption and investment patterns," says Mr Christl, who also notes that some of Austria's traditional competitors, such as Italy and Spain, can no longer devalue their currencies to strengthen their competitive position.

The OECD recently trimmed its forecast for Austria's 1999 GDP growth from 2.8 per cent to 2.4 per cent, but predicts an acceleration to 2.6 per cent in 2000. The main reason is the slowdown in Austria's export growth and also the rate of business investment which will more than offset the pick-up in consumer demand.

Although Austria's direct trade exposure to Russia is limited, it will be more affected if Russia's financial problems have a knock-on effect on Austria's main trading partners in neighbouring eastern Europe.

Austria's Raiffeisen Zentralbank, one of the leading operators in the region, recently cut its 1999 forecast growth rates for Poland from 6.2 per cent to 4.6 per cent and for Hungary from 5.3 per cent to 3.9 per cent.

But, with the exception of the Czech Republic, all of Austria's big central European trading partners are expected to grow faster than Austria itself in 1999.

Helmut Kramer, director of the Austrian Institute of Economic Research, says that most eastern European countries have re-orientated their exports away from Russia. He also believes the foreign trade effects for Austria of Russia's problems will be small. He is confident that Poland and Hungary will "continue on the right course".

But, although Austria's trade exposure to Russia is limited, events in Russia have an important impact on foreign investor sentiment towards Austria.

Germany is two and a half times more important as a customer for Austrian exports than all of eastern Europe, and Austria exports nearly twice as much to Belgium as it does to Russia.

But it will need several more quarters of robust Austrian export growth to get the message across.

POLITICS by Eric Frey

The coalition lives on

A challenge from the far right would only be credible if it moderated its stance

The so-called grand coalition between the Social Democratic and the People's parties has been declared dead on several occasions, but now even sceptics admit that the partnership that has governed Austria since 1986 is likely to carry on for years to come.

It is not only because a majority of voters tell pollsters that they want the two biggest parties to stay together, but also that the only alternative partner, the far-right Freedom party, has recently become even more isolated.

Freedom party leader Jörg Haider has had a terrible year. One of his members of parliament escaped to Brazil after running up Sch500m in bad debts, the party chapter in the province of Lower Austria went nearly bankrupt and several respected figures left the party because Mr Haider could not tolerate any dissenting voices.

This has pushed the Freedom party, until recently the most successful far-right movement in Europe, down from a peak of 27 per cent to around 21 per cent in the polls. Even more damaging, it has killed off any enthusiasm in the People's party, which shares some ideological positions with the Freedom party, to form a coalition of the right.

Mr Haider's strict opposition to European integration, including EU membership, Emu and EU enlargement, as well as his anti-immigration rhetoric, has also made him unacceptable to even those parts of the political establishment that like his iconoclastic attacks against the old ways of Austrian politics.

Even if the Freedom party recovers at the polls, its chances of joining the national government are slim.

The main beneficiary of Mr Haider's troubles is Chancellor Viktor Klima, whose Social Democratic party is stable in the polls with about 40 per cent of the votes, two percentage points above its 1995 showing.

Wolfgang Schüssel, the Freedom party's chairman

Mr Klima can rightly say that he contributed to Mr Haider's decline. Rather than attacking the charismatic rabble-rouser at every turn, as his predecessor Franz Vranitzky did, he chose to ignore him and match his populist streak with his own appeal to the common people.

This has often made the chancellor vulnerable to attacks from some intellectuals, but has given him a wide popular appeal and helped to keep Mr Haider at bay. The Social Democrats also try to steal some of Mr Haider's ideas.

Karl Schlögl, the interior minister who is seen as a rising star in the party, is pushing for a stricter asylum law and wider police power to tap into confidential data bases and use electronic listening devices.

Even the People's party feels quite content these days. It is safely in second place and without a chance of becoming the strongest force, but a year ago was stuck behind the Freedom party in third place.

Its chairman, Wolfgang Schüssel, is getting plenty of publicity because, as foreign minister, he also heads the rotating EU presidency that Austria holds for the first time. This will not suffice to rival Mr Klima's popularity, but will help keep the party its present 28 per cent share of votes.

Mr Haider's best chance of a political comeback lies in Carinthia, the southern province that is his home base. He was ousted there as governor in 1991 after praising the orderly employment policies of Nazi Germany, and he is now hoping to regain the post when regional elections are held there and in two other provinces next March.

According to opinion polls the Freedom party is running neck-and-neck with the Social Democrats there. But even if it gains the majority Mr Haider is unlikely to find a coalition partner that will make him governor.

Still, an electoral victory in Carinthia would boost his chances in subsequent national elections, which have to be held before the end of 1999.

To prevent such a scenario, the Social Democrats would like to move forward the parliamentary vote to March. The People's party, however, is aiming for a date in early summer or autumn because it wants more time to close the popularity gap with the Social Democrats.

The vote for the EU parliament in June, where Mr Schüssel can play out his strength as a European leader, would seem like a perfect time. None of the parties wants to be the first to break up the coalition, but tensions in the 12-year-old partnership are growing.

The biggest is over the tax reform bill that has been promised for 2000 and must therefore be passed by parliament next spring.

While finance minister, Rudolf Edlinger, a Social Democrat, wants to limit the net tax cuts to Sch10bn to keep the budget deficit within the strict limits set by the stability and growth pact for monetary union, the People's party is calling for steeper cuts.

But it does not go as far as the Freedom party, which wants to replace the progressive income tax system with a 23 per cent flat tax.

The other two opposition parties, the left-leaning Greens and the centrist Liberals, are likely to remain outside power. They are both hovering around 5 per cent in opinion polls and hope to make the 4 per cent threshold again next year.

The Greens have picked a respected economist, Alexander van der Bellen, as their new leader, but he has little popular appeal. The Liberal leader, Heide Schmidt, is prominent but she only draws votes from young professionals in the bigger cities.

A change in government is only conceivable if Mr Haider leaves the political stage and the Freedom party adopts a more moderate stance. For that reason Mr Haider faces growing unrest in his party, but he has so far ousted anyone who dared to challenge his authority. The last was Thomas Prinzhorn, a successful entrepreneur who has for years served the party as chief economic spokesman.

Even though Mr Haider keeps the Freedom party from gaining real power, he is the key to its success at the polls.

PROFILE
VIKTOR KLIMA

Reinvented and riding high

Two years into his term as chancellor, Viktor Klima is riding high. Polls consistently give his Social Democratic party a voting share of 40 per cent, well ahead of the smaller coalition partner, the conservative People's party, and the opposition far-right Freedom party.

Mr Klima, 52, is busily reinventing his party, which has governed Austria for 28 years, into a "New Left" force, modelled somewhat on the British Labour party.

Austria's first try at the rotating European Union presidency seems to be going well after Mr Klima managed to achieve some progress towards joint European employment and defence policies at an informal summit at the lakeside village of Pörtschach, which had been widely feared to yield no results at all.

The smooth path to the introduction of economic and monetary union generates an optimistic business outlook in Austria and the other Emu countries.

And the electoral success of the German Social Democrats has made Mr Klima's pragmatic approach to most economic issues the consensus in an EU dominated by centre-left governments: "Our perspective does not end at the single currency and the single market, but [Europe's social democrats] see the need for further European integration," Mr Klima says.

At the Pörtschach summit he noted a "silent consensus for strong economic co-operation" between all heads of governments.

Austria was one of the first countries to make the fight against unemployment an EU project and now feels vindicated by the acceptance of the need for a European employment policy. "Critics claim that we just want to take good money from net payers, send it to Brussels and have it distributed evenly all over the EU, but that has always been a misunderstanding," Mr Klima says.

His vision of a modern employment policy consists of joint efforts in research and development and meaningful infrastructure investments.

Although Austria clings to its policy of neutrality and his party rejects Nato membership, the chancellor strongly supports the recent movement towards a joint European security policy.

Austria is active in a number of UN-backed peacekeeping missions and co-operates closely with Nato through the Partnership for Peace. Once the treaty of Amsterdam is in place, the country will be able to participate in any EU-approved mission that falls under the so-called Petersberg principles of peacekeeping or peacemaking.

When it comes to EU enlargement, which has become increasingly unpopular in Austria, Mr Klima is also pragmatic. While supporting the admission of the former communist countries, he tries to steer the debate towards the economic and political conditions necessary for membership. "We do not want to delay enlargement, but I also do not believe in a power play over dates," he says.

Mr Klima speaks up for granting a wide range of technical and financial support to the candidate countries to accelerate the process. But he also insists that, because of Austria's long border with four prospective new members and the enormous wage gaps, his country will need long transition periods before allowing free movement of workers after enlargement.

"It cannot be Austria's goal to have its labour market destroyed through daily or weekly commuters," he says. "This is also not in the interest of the candidate countries. They don't want to drag the rest of Europe down to their social and economic level but want to rise up to the European level step by step."

Mr Klima feels that if his government addresses the problems that could be caused by the enlargement process it can overcome public fears just as it did in the run-up to Emu. "A year ago, only 25 per cent of the people supported the euro," he says. "But, today, 66 per cent do. This is because we gave open information and took people's worries seriously."

Mr Klima became chancellor when his predecessor Franz Vranitzky surprisingly resigned in January, 1997, after 10 years in office. The former manager of the oil and gas group OMV was called by Mr Vranitzky into the government, where he served as minister of transport and later as minister of finance.

Going into a year which will contain three regional elections as well as the vote for the European parliament and the national poll, Mr Klima preaches a message of economic opportunity and entrepreneurship that differs from the traditional image of the Social Democrats.

As a former manager, he knows that only private enterprise can provide the kind of jobs needed to keep unemployment at its present rate below 5 per cent.

"We will fight against bureaucracy and interest groups and make sure that people who want to start their own company will have an easier time," he says.

"This is a different kind of social democracy than it was 20 years ago. We never stopped developing our ideas, which explains why we still have such a high rate of approval today."

Eric Frey

The 250,000th Chrysler Voyager minivan is rolled out at the Eurostar assembly plant in Graz, Austria's second biggest city and in recent years the focus of the country's fast-growing automotive industry

INDUSTRY by **William Hall**

New generation comes to the fore

The message remains upbeat, despite the downturn in many markets and concern about the impact of the Russian crisis

If the health of Austria's industrial sector were measured solely by the stock market, alarm bells ought to be ringing in the corporate headquarters of several of the country's blue-chip companies.

The shares of VA Tech, flagship of Austria's engineering industry, have more than halved in value this year and are almost back to where they were at the time of its 1994 stock market flotation.

The value of OMV, the country's biggest industrial company, has fallen by around a third and VA Stahl, the leading steel producer, is down by a similar amount.

Böhler-Uddeholm, the world's biggest producer of tool steel, is worth 25 per cent less than it was at the start of the year and other well-managed companies such as RHI, a leading refractories and engineering group, and Mayr-Melnhof Karton, one of the world's biggest packaging companies, are trading on less than 10 times estimated 2000 earnings.

A combination of concern about the impact of the Russian crisis on corporate Austria and the exposure of several companies to cyclical industries, such as steel, has taken a heavy toll on investor sentiment.

However, listen closely and the general message coming out of the majority of Austria's leading companies remains remarkably upbeat despite the downturn in many of the markets in which they operate.

Richard Schenz, OMV's chief executive, says that, despite deteriorating world oil and chemicals markets, the company has a strong financial base and is starting to benefit from its restructuring. Since 1992 it has cut its workforce by more than a third and lifted its return on average capital employed from nil to 8 per cent in 1997.

Earlier this year it raised its target return from 10 to 13 per cent and, despite recent difficult markets, plans to reach its goal within the next three years.

VA Stahl has experienced a downturn of "unparalleled speed" in the the European steel market in recent weeks. Nevertheless, it increased its first half earnings before interest and tax by 56 per cent to Sch1.48bn and expects full-year results to beat those of last year.

Austria's leading companies

	Market cap (Sch bn)	Price* (Sch)	Price earnings ratio**	Sector
Bank Austria	42.7	[illegible]	9.2	Banking
Verbund	29.1	1,526	28.8	Utility
Erste Bank	26.5	642	9.4	Banking
OMV	23.7	1,027	7.9	Oil and gas
Wienerberger	20.6	2,470	12.4	Building materials
EVN	18.3	1,607	12.2	Utility
Generali	17.9	2,900	18.5	Insurance
Austria Tabak	16.9	770	10.4	Tobacco
VA Tech	14.6	[illegible]	11.1	Engineering
VA Stahl	9.5	287	9.2	Steel
Austrian Airlines	9.2	365	8.2	Airline
Flughafen Wien	9.2	527	13.3	Vienna airport
Brau-Union	8.7	[illegible]	11.1	Brewing
Mayr-Melnhof	6.4	536	8.5	Packaging
Böhler-Uddeholm	6.6	542	5.9	Engineering
BBAG	5.9	694	11.7	Brewing

Source: [illegible]
* Figs as at Oct 28 1998
** Based on estimated year 2,000 earnings

It has responded quickly to the downturn and plans further cost savings in addition to the Sch500m budgeted for the current year. It has halved its gearing over the past year and the group is intensifying its efforts to move up the value-added chain in steel production.

Böhler-Uddeholm, which boosted earnings by 24 per cent to Sch1.1bn in the first nine months of 1998, notes that only 4 per cent of its sales go to eastern Europe and 9 per cent to Asia.

The downturn in these markets is being more than offset by strong demand for special steels in the European Union and North America and its order backlog is 15 per cent up on a year ago.

However, the clearest sign of the health of Austria's industrial blue-chips is the increase in corporate activity. In September, VA Tech paid Sch2.7bn for Rolls-Royce's UK power transmission and distribution business in a move which will make it one of the global players in the sector.

A month later, Wienerberger, Europe's leading brick and tile manufacturer, made its first move into the UK market, paying Sch1.8bn for a 29.8 per cent stake in Ibstock, one of the top two British facing brick manufacturers.

VA Stahl, which earlier this year bought Metsec, a UK firm producing 80,000 tonnes of structural steel a year, has joined forces with Hoogovens, the Dutch steelmaker, to negotiate taking a controlling stake in one of Poland's biggest steel mills.

Mayr-Melnhof recently increased its stake in Reno de Medici, a large Italian competitor, and OMV continues to build up its network of petrol stations in Hungary, the Czech Republic and Slovakia.

Meanwhile, there are signs that Austria is starting to produce a new generation of smaller growth companies which have already eclipsed the likes of Wolford, the textile fashion group, and Austria Mikro Systems, the high-tech group, both of which failed to live up to their earlier promise.

Topcall, an information technology group quoted on Easdaq, is the best known. It is one of the top performing European shares this year and in the first nine months increased its pre-tax profits by 78 per cent to Sch83.4m.

However, some longer-established Austrian companies such as BWT, a water treatment firm, and Semperit, which makes products such as rubber surgical gloves, have been growing at an above-average rate.

Last year Semperit's shares more than doubled in value and BWT's rose by 75 per cent. This year they have continued to outperform the stock market.

Austria may not be able to boast of corporate giants like Switzerland's Roche, Nestlé and Novartis. But a new generation of mini-multinationals is starting to take its place alongside the privatised pillars of Austria's former state-owned heavy industry.

FOREIGN INVESTMENT by Clifford Stevens

Attracting attention at an explosive rate

EU membership, economic and social stability, and a highly qualified labour force have been important factors in boosting the country's competitiveness

Although Austria has developed into one of Europe's most prosperous nations, its global reputation is still tied to cultural clichés, such as the Opera Ball, Sachertorte, Lippizaner horses and Alpine skiing. It is far less well known as a high-performance business location.

In the mid-1980s foreign investment in Austria was running at an average of less than Sch5bn a year and was lower than the total that Austria was investing abroad.

In the early 1990s Austria was investing nearly Sch14bn a year abroad, or twice as much as it was receiving in direct foreign investment. The development was not unexpected since wealthy countries tend to be net exporters of capital.

However, since 1995 there has been a marked turnround in fortunes. Austria's overseas investment has continued to hold up well and looks like being a record this year.

But the sums are overshadowed by the explosion in direct foreign investment in Austria. Over the past four years an average of Sch21bn a year has been pumped into Austria, with Germany, Italy, Switzerland, the US and UK leading the charge.

Since 1990, the total outstanding stock of foreign investment in Austria has more than doubled to Sch240bn. This figure compares with a cumulative total of Sch155bn for Austria's direct foreign investment abroad.

Austria's current annual share of international direct investment in the Organisation for Economic Co-operation and Development is three times the level of the 1980s.

Various explanations have been given for the jump in foreign investment in Austria. The country's economic and social stability, its highly qualified and motivated labour force, the low level of strikes and the quality of life make Austria an attractive place in which to invest.

Austria has achieved annual productivity growth of 5.1 per cent over the past decade, which is one of the best in Europe.

In addition, its 5 per cent drop in unit labour costs last year was the best in the OECD.

The government has also taken steps to make the country more user-friendly for foreign investors. One milestone was the 1994 tax reform which set a flat corporate tax rate of 34 per cent, one of the lowest rates in Europe, and which eliminated many levies.

Labour flexibility has been increased with seven-day shifts, extended daily or weekly working hours and even Sunday working allowed. Austria also has simplified and speeded up its system of granting business permits.

Some 80 per cent of plant approvals are now issued within three months, considerably faster than the European average.

"We have gone a long way towards eliminating major obstacles to foreign investment," says René Siegl, managing director of the Austrian Business Agency. "Austria can now stand on its own in European comparison."

Last year his agency supported a record 62 foreign investment projects worth $2.22bn and this year's figures should set another record. However, these factors behind Austria's success as a magnet for foreign investment appear to have been put in the shade by other events. The collapse of the Soviet bloc and Austria's entry into the European Union in January 1995 have transformed the country's attractiveness to foreign investors.

Austria attracted foreign companies keen to exploit the geographical proximity and traditional ties of Vienna to both central and eastern Europe

By the end of 1997 companies based in Austria had invested $5.3bn in 15,400 joint ventures in central and Eastern Europe, thus making it one of the top five investors in the region.

This, in turn, has attracted foreign companies to Austria keen to exploit the geographical proximity and traditional ties of Vienna to both central and eastern Europe.

Around 1,000 international companies have set up their central and eastern European headquarters in Austria. Prominent names include 3M, Alcatel, Coca-Cola, Henkel, Hewlett-Packard, Master Foods, McDonald's, Nestlé, Siemens and Unilever.

Some of the most recent arrivals in the regional headquarters directory are information technology companies, such as Informix, Baan, Computer Associates, Cognos and Debis.

The Holiday Inn hotel chain has recently moved its regional headquarters from Brussels to Vienna and Eli Lilly has transferred from Geneva.

However, the fact that the take-off in foreign investment coincided with Austria's membership of the European Union is perhaps the most compelling reason for Austria's foreign investment boom.

The Federation of Austrian Industry, in a recent study, concludes that EU membership has been the key factor boosting Austria's competitiveness.

Nevertheless, Austria is still not as high as it should be in the regular international competitiveness league tables.

Excessively high energy costs, a bloated civil service, lack of entrepreneurs and below-average research and development spending are the most frequently cited criticisms.

Austria still has some way to go before it can match countries such as the Netherlands and Switzerland as a good place to do business.

Foreign direct investment in Austria

	Sch bn
1984	2.3
1985	3.5
1986	2.8
1987	5.1
1988	5.4
1989	7.7
1990	7.4
1991	4.2
1992	10.3
1993	11.4
1994	13
1995	8.4
1996	40.6
1997	21.2
1998	15.8*

* First six months
Source: Austrian National Bank

FINANCIAL TIMES SURVEYS

GENERAL INFORMATION

FT Surveys
One Southwark Bridge
London SE1 9HL
Tel +44 (0) 171 873 4090
Fax +44 (0) 171 873 3197; e-mail: ft.surveys@ft.com

SURVEYS PROGRAMME AND INDEX

A list of the following week's surveys is published every Monday in the Guide to the Week on the back page of Section Two of the Financial Times.

For details of forthcoming surveys or a list of past surveys, consult the FT Web site http://www.FT.com/newspaper/services.htm.

Customer service is available in the event of difficulties on 0171 873 4848

Alternatively, you may call the FT Fax-U-Back service.

Forthcoming surveys programme: 0990 209 908.

Past surveys index: 0990 209 907

(Callers outside the UK dial exit code + 44 990 209 908).Ensure your fax is in polling mode. Users with a handset on their fax machine should dial the Fax-U-Back number and press Start when instructed. Otherwise, dial direct from the fax keyboard, then key Start. In the event of problems call 0171 873 4378 or outside the UK +44 171 873 4378.

BANKING by William Hall

A chilly eastern wind

The advent of the euro could be more of a threat than an opportunity

The past 12 months will not go down as the happiest chapter in the history of Austrian banking.

A year ago Austria's banks were riding high. Erste Bank, the oldest savings bank, had just been floated on the stock exchange and investors were queueing up to buy the government's remaining stake in Bank Austria, the country's biggest bank.

Bank Austria's takeover of Creditanstalt, Austria's second biggest bank, and Erste Bank's acquisition of Giro-credit appeared to signal the start of the long overdue consolidation of Austria's banking system. With about 1,000 banks, Austria has more than twice as many as neighbouring Switzerland, and with one bank branch to 1,419 inhabitants, it remains one of the world's most over-banked countries.

Clearly, there is plenty of scope to cut costs, and the reduction from four big banks to just two was expected to accelerate the process and help a recovery in Austria's historically weak lending margins.

A new breed of managers, such as Erste Bank's Andreas Treichl, a former Chase Manhattan banker, has begun to emerge, setting ambitious return on equity and cost-cutting targets.

But the rejuvenation of the banking system has not been running smoothly. In June, European Union competition authorities began investigating alleged price fixing by Austrian banks in the so-called Lombard Club – a bankers' luncheon club which meets once a month in Vienna's swank Hotel Bristol. In October, ABN Amro gave a taste of things to come when it led a big euro issue for the Republic of Austria.

In the past, Austrian banks could count on raising the government's schilling debt issues. But with the arrival of the euro they no longer have the market to themselves. Moody's, the US credit rating agency, recently concluded that the advent of the euro could be more of a threat to Austrian banks than an opportunity.

However, it was the Russian financial crisis which really punctured the short-lived re-rating of Austria's banks. Central and eastern Europe is one area where Austria's banks still have a competitive lead over European rivals. Raiffeisen Zentralbank has 2,500 staff and 80 branches in central Europe and Bank Austria has 100,000 personal customers in the region.

Most Austrian bank exposure is in neighbouring countries, such as Hungary and the Czech Republic. But Bank Austria has also been active in Moscow.

The abrupt resignation in mid-November of Peter Fischer, joint head of Bank Austria's treasury operations, and Franz Hörhager, a board member of Bank Austria Creditanstalt International who had been responsible for lending to Russia, suggests serious differences of opinion about the adequacy of risk control systems in the upper echelons of Bank Austria.

The bank is doubling its group-wide provisions to more than Sch10bn this year and much of the increase is due to the need to take provisions against the Russian exposure which had been reduced to Sch11bn by the end of September. But Alraich Fenyves, head of Bank Austria's international business, stresses that operations in the Czech Republic, Poland, Slovakia, Slovenia and Croatia increased net profits by 50 per cent to Sch670m in the first nine months of 1998 and had a return on equity of 24 per cent.

In Russia, Bank Austria is working out its problem loans rather than seeking new ones. But Mr Fenyves stresses that his group has no intention of retreating from its core markets of central and eastern Europe.

Herbert Stepic, deputy chairman of Raiffeisen Zentralbank, is equally upbeat about the longer-term prospects for his bank's operations outside Austria. He is the best-known Austrian banker operating in central Europe and emphasises that his bank will continue to support Russia. "The transformation process in Russia is not an exercise which can be done in a very short time," he says. "It will take at least 15 to 20 years."

RZB's total Russian exposure was Sch4.2bn, the greater part in refinancing lines to its Moscow subsidiary, and most of the rest was in trade financing lines. RZB can cover potential losses out of its normal profit and loss account, says Mr Stepic.

Mr Stepic, like others in Austrian banks, is convinced the Russian setback will not curtail Austrian banks' efforts to become leaders in central and eastern Europe. Weak profitability and poor growth in domestic banking is forcing them to expand often and central Europe is their most obvious market.

"Our risk return ratio in emerging markets, compared with industrialised countries, is much, much better, and that includes all the associated risk costs over a 10-year period," says Mr Stepic. "We are absolutely convinced it is the right philosophy."

It is not a view shared by all credit rating agencies. But then, Mr Stepic has been operating in central Europe far longer than the credit analysts threatening to downgrade his bank's debt.

Austrian banks' emerging market exposure

$bn (June 1998 figures)	Austria	Germany	Total*
Eastern Europe	9.86	52.52	133.40
of which Russia	4.8	31.38	75.85
Latin America	2.15	39.47	285.71
of which Brazil	0.66	12.78	84.58
Asia	5.56	42.24	324.81
of which Indonesia	1.39	5.88	59.27

Source: Bank for International Settlements * Total international claims of all BIS reporting banks

Austria's leading banks

End 1997	Assets (Sch bn)	Staff	Branches
Bank Austria	1,588	19,347	517
Erste Bank	688	9,606	458
RZB	304	2,074	1
PSK Bank	272	n/a	n/a
BAWAG	252	2,823	164
Oberbank	94	907	92
Österreichische Volksbank	84	571	29

Source: The Banker

PROFILE
KLAUS LIEBSCHER

A job shaped by arrival of euro

Klaus Liebscher, head of the Austrian National Bank, is looking forward to the introduction of the euro.

For the first time since he took over as head of Austria's central bank in 1995 he will have a proper job, and for the first time in its history the central bank will have a real governor.

Until recently Mr Liebscher, 59, has been president of the Austrian National Bank's general council and has had to leave the day-to-day running to Adolf Wala, chief executive of the executive committee.

Mr Liebscher's main task was to set Austria's monetary policy. But since Austria pegged the schilling to the D-mark nearly 20 years ago it has been more of a ceremonial job.

Austrian interest rates have moved in tandem with Germany's, and it has been the Bundesbank, and not Mr Liebscher, who has been making Austrian monetary policy.

Indeed, some unkind critics have joked that his job could easily have been done by an incoming fax machine linked to the Bundesbank's Frankfurt headquarters.

However, the arrival of the euro has led to an overdue shake-up at the top of the Austrian National Bank. Mr Wala, 61, has retired and taken over Mr Liebscher's old role as president of the general council. The latter has been stripped of its monetary policy powers and is now just a supervisory board.

Mr Liebscher has become governor of a slimmed-down executive board made up of Gertrude Tumpel-Gugurell, vice-governor, and two other executive directors, Peter Zoellner and Wolfgang Duchatczek.

It will be Mr Liebscher who will attend the regular meetings of the European Central Bank in Frankfurt on the first and third Thursday of every month.

Mr Liebscher, a former chief executive of the Raiffeisen Zentralbank, the central bank of Austria's powerful rural savings bank movement, always seemed the front runner to head the central bank.

Even so, he was challenged at the last moment by an equally well qualified candidate in Ferdinand Lacina, 55, a former finance minister.

However, despite Mr Lacina's strong ties to the ruling Social Democrat party and successful record as finance minister, Mr Liebscher won the day. This may be due partly to Austria's odd system of sharing out top jobs along party lines – traditionally the central bank head has been a conservative and often from the RZB. It might also reflect Mr Liebscher's record as a consensus builder.

Unlike some of his predecessors, such as the formidable Dr Maria Schaumayer, Mr Liebscher is a diplomatic figure who rarely rocks the boat with his statements. If he holds strong opinions on financial matters, he rarely vents them in public.

On the subject of the Austrian banks' lending to Russia, he says he is relaxed. "We have one-tenth of the exposure of German banks to Russia. It can be easily covered by the profits they make this year."

He is also not critical of

Mr Liebscher is a greater believer in talking issues through with all interested parties

the supervisory system, which was unable to avert the embarrassingly high losses caused by the fraud-related collapse of Rieger Bank, a small money-changing bank.

The two areas where he has recently raised his voice have been in defence of the status quo. He was quoted as being "astonished" by last summer's European Commission investigation into alleged price-fixing by Austrian banks.

"In a country where there are 1,000 banks it is hard to form a cartel," says Mr Liebscher, who believes that similar types of discussions between bankers happen in lots of other EU countries.

He also does not want the minutes of the meetings of European Central Bank governors' meetings to be published, an idea supported most recently by Viktor Klima, the chancellor. While he is all for transparency, he argues that publishing the minutes would encourage national governments to put pressure on their representatives on the ECB board.

Nevertheless, he is not as negative as some about the potential tensions between the ECB and national politicians. He accepts that there will be disagreements, but stresses that there are clear rules on how to deal with them. He is also a greater believer in talking issues through with all interested parties.

In this respect, Austria's experience of pegging the schilling to the D-mark could provide some solace to small countries fearful of the power of the ECB.

Austria has lived successfully in an effective "mini-EMU" with Germany for years and it worked very well because there was an intensive dialogue between the Austrian central bank, Austria's social partners, government and industry.

"Some export sectors and tourist-related industries attacked us during certain periods," says Mr Liebscher. "But they understood at the end of the day that the policy was good for the country as a whole.

"If we can have the same dialogue in Europe with all the responsible bodies, especially the politicians, it will be easier to understand why the ECB council is doing this or that."

William Hall

INSURANCE by Herbert Fromme

Liberalisation is bringing new risks

Competition is intensifying as the country prepares for the euro and becomes a springboard into central and eastern Europe

Any Austrians out to defraud their insurer might in future stand a better chance of getting away with it than dishonest customers in other countries.

That, at least, is the insurance industry's view of the draft for Austria's new data protection act. The draft does not just transform the corresponding EU directive into national law, say insurers.

"The government goes far beyond the EU directive by banning data networks which would be useful to counter fraud," argues an angry Dr Siegfried Sellitsch, president of the Austrian insurers' federation Verband der Versicherungsunternehmen Osterreichs and general director of market leader Wiener Städtische Allgemeine Versicherung AG, Vienna.

Such over-regulation is an "Austrian malaise", the manager says. He should know. The Austrian insurance industry used to be among the most tightly regulated in Europe in terms of government control over prices and terms.

Liberalisation has done away with the principle, but companies are still suffering from the negative effects, including high cost ratios and a stuffy mentality in many bureaux.

They are also still enjoying price levels that in private customer insurance are often markedly above those of other European countries.

The distribution system exacerbates the relatively elevated price structure, with salaried agents dominant in the non-life market, and bank counters the main distribution channel for life, with commission levels considerably above those in other European countries.

"Sales costs for insurance in Austria are exorbitant," says Helmut Geier, the newly appointed chief executive of Wüstenrot Versicherung. "If commission payments are higher than the annual premium volume from the business won, this is ruinous in terms of international competition."

Mr Geier is taking drastic measures. Up to 2000, Wüstenrot will cut commission levels by 25 per cent, hitting partners such as banks and brokers. "When the euro arrives in Austria we want to be market leaders in terms of cost," he says.

The Austrian market has been preparing for intensifying competition. The price war in motor insurance has held back premium growth in the whole non-life sector – the market booked premium income of Sch69.2bn in 1997, only marginally up on the Sch68.9bn of the year before, while claims costs rose faster to Sch47.6bn.

In life insurance the figures look catastrophic, showing a fall in premium levels from Sch60.3bn in 1996 to Sch51bn in 1997. But this picture is misleading. The drop is entirely due to the boom in single-premium policies enjoyed by companies in 1996, which could not be repeated in 1997.

"For 1998, we expect another rise over all sectors of the insurance market," says Dr Sellitsch of the VVO. Expected growth figures are as high as 4.6 per cent.

Profitability in any case remains healthy. The VVO says the industry as a whole achieved profits of Sch1.86bn in 1997, up from Sch1.52bn the year before.

But the situation differs markedly from one insurer to the next, and the question is whether small companies with market shares of less than 0.5 per cent can survive in the even more competitive environment that the euro will bring.

Industrial insurance rates in Austria are already said to be at rock bottom, mirroring the ruinous market situation in neighbouring Germany. This situation is set to intensify and move on to the commercial, and finally the private, customer sectors.

But consolidation is not only prompted by local price circumstances. Austria is seen by many European insurers as the ideal base camp for a move into central and eastern Europe. And, with new alliances on a European scale emerging, such as that between Generali, the Italian insurer which has a sizeable presence in Austria, and the German bank, Commerzbank, the Austrian market is part of the movement.

The Wiener Städtische group claims to be market leader, with around 20 per cent of the market. But its crown is under threat from the newly formed BARC group, which last year brought together four insurers and, once properly formed, will have in excess of 20 per cent market share.

EA-Generali also has close to 20 per cent market share, if its group members Interunfall and CA-Generali are included. Germany's Allianz and its Austrian subsidiaries have about 10 per cent.

Strategies differ. Wiener Städtische sticks to a multi-brand approach. Besides the group's main operating company, it owns Donau, which targets farmers, commerce and private customers, VJV, the motor insurer, Union, the life and accident insurer, which co-operates closely with Bank Austria, and the industrial insurer, Montan.

Allianz, on the other hand, has just merged its companies. Allianz Elementar Versicherungs-AG, brings together Wiener Allianz and Anglo-Elementar.

Generali, too, is considering whether a merger of EA-Generali and Interunfall would make sense, though no firm decision has been taken. So far, the two are competing in the market despite close co-operation in the back office.

As for Winterthurösterreich, part of the Swiss Winterthur group, it is on the acquisition path and says so. Its chief executive, Hubert Schultes, is looking for other insurers and would like to strike a co-operation deal with a bank.

Mr Schultes says the critical mass an insurer needs in Austria is about Sch3bn, which equates to market share of around 2 or 3 per cent, unless it specialises in operating in niches only. Judging by that yardstick, only 20 of the present 65 registered insurers will survive.

THE ENERGY MARKET by George Hamilton

State utilities try to hold on to power

The rush to comply with EU directives has created chaos in a protected sector

With less than 90 days to go until the first phase of EU energy market liberalisation takes effect, Austria is unprepared for the challenges which lie ahead.

Legislation reorganising the electricity industry to comply with EU directives came only last summer. Even after four agonising drafts, the law as passed remains disputed and incomplete.

The gas industry faces a similar fate and is plotting desperately to retain as much as possible of its lucrative monopoly after EU liberalisation directives take effect from 2000.

The chaos is hardly surprising. The energy industry has enjoyed more than 50 years of politically supported monopoly. Laws dating back to 1947 ensure that a minimum of 51 per cent of any federal, regional or municipal electricity utility is owned by the respective government body.

"Privatisation" simply means that up to 49 per cent of a utility's share capital may be held by others, but control remains firmly in government hands. Similarly, the government as largest shareholder retains 35 per cent of the dominant oil and gas concern OMV.

Many of the problems in the electricity sector reflect the cumbersome pyramid of power.

Hannes Farnleitner, Austria's economy minister, is at the top. Then there is a federal electricity authority (Verbund) as primary electricity producer and operator of the national grid, wholesaling electricity to the nine regional utilities and largest municipalities under long-term contracts.

The regional utilities, in turn, supply smaller community utilities. Finally, at the bottom are the customers.

EU directives expose the Verbund to full market deregulation since the regional utilities and largest industrial customers are entitled to obtain their electricity supplies wherever they choose.

But, whatever the source, for electricity to be delivered to the regional utilities it must generally travel over the high-voltage distribution system which the Verbund owns and administers. The potential for controversy is obvious.

The first shock occurred less than a year ago when Electricité de France outbid OMV, the Verbund and others to acquire minority control of EStAG, Styria's regional electricity utility.

Furious, the Verbund reciprocated by replacing the Styrian director of a smaller jointly held electricity utility and forcibly consolidating the joint utility into one of its own.

Such petty behaviour has not stopped. Any sense of unity or co-operation within the electricity sector is long gone. The Verbund has hardly endeared itself to its regional customers, essential though they may be to its existence.

Lower Austrian utility EVN, the country's second largest, has given notice on its Verbund supply co-operation agreement from 2001 and in October secured a 5 per cent holding in Tatel, a Swiss utility which is one of Europe's biggest traders of electricity.

WienStrom, the City of Vienna's electric utility, is reported to have solicited electricity supply offers from Swiss and German sources. Both utilities only weeks ago were negotiating closer ties with the Verbund.

Most other European countries have achieved far more transparent organisational concepts for deregulation than Austria. For example, Austria's national grid has been left under the Verbund as a department rather than being reorganised as an independent concern with its own clear cost structure and administration.

The regional utilities are baulking at ministry attempts to impose a transmission network utilisation tariff schedule sufficiently complicated to smother any aspirations towards independent sourcing. The scheme would require reimbursement of the Verbund for the basic availability of the grid, whether or not the grid or other Verbund lines were used to transport electricity.

The confusions would be easier to resolve if Austria had a co-ordinated energy policy. As EU-directed market deregulation moves closer, both the government and the energy sector have sought protection by inventing defensive strategies to keep out competition. These failed when Electricité de France came on the scene.

Lack of a coherent government energy policy was evident as far back 1995-96, when energy taxes were introduced, the excuse being that these would direct and support environmental initiatives. Instead, the revenues have simply swelled general income coffers. Inspired by the German Greens' latest successes, additional and new taxes are under discussion on electricity, gas and motor fuels which would add Sch8bn annually to energy costs.

The growing lack of direction within the energy sector is likely to result in the situation the government has sought to avoid.

The French incursion will probably be followed by German initiatives, taking advantage of animosities, disagreement and divisions which Austria's market liberalisation is spawning.

Germany's Bayernwerk and RWE make no secret of their intentions. EDF would like nothing better than to extend its present limited beachhead. Gaz de France is represented in Styria as well and German Ruhrgas is already signing deals.

Rather than considering strategic co-operation arrangements with potential competitors, the Austrian energy sector has fought to defend the status quo.

When, in the third act, the big foreign competitors march on to the scene – and, one way or another, they will – the shock will be all the harder to accept.

Austria's leading energy players

Province	Company	Sector	Main shareholders (%)
Vienna	OMV*	Oil/gas	Austrian govt (35) IPIC/Abu Dhabi (19.6)
	Verbund*	Electricity/National Grid	Austrian govt (51); EVN (10); Wiener Stadtwerke (5); Tiwag (5)
	Wiener Stadtwerke	Electricity/gas	City of Vienna (100)
Lower Austria	EVN*	Electricity/gas	Lower Austria (51)
Upper Austria	OKA	Electricity/gas	Upper Austria (100)
	OÖ Ferngas		OMV (50); OKA (50)
Styria	ESTAG	Electricity/gas	Styria (74.9); EDF (20.1) Gaz de France (5)
Tirol	TIWAG	Electricity	Tirol (100)
Carinthia	KELAG	Electricity	Carinthia (65); Verbund (35)
Salzburg	SAFE	Electricity/gas	Salzburg (64); OKA (36)
Vorarlberg	VKW*	Electricity	Vorarlberg (88)
Burgenland	BEWAG	Electricity	Burgenland (51); EVN/others (49)

Source: Company reports * Quoted on Vienna Stock Exchange

PROFILE
FRANZ FISCHLER

A man who has his roots firmly in the soil

Brussels judges that, so far, the European farm commissioner has done a good job


Franz Fischler: speaking with authority Picture: AP

Franz Fischler, European farm commissioner, sometimes directs visitors to a painting on his office wall depicting a confusing motorway system.

"You can't see where it starts or ends," he says as a grin spreads across his face. "It is just like decision making in the European Union."

Mr Fischler speaks with authority. As farm commissioner since 1995, he has had to master the common agricultural policy, home to some of the most complex decision-making systems in the EU.

The judgment in Brussels is that, so far at least, he has done a good job. Ask any European diplomat to name the most effective of the 20 commissioners and Fischler invariably comes in the top five or six.

His success has surprised fellow Austrians and EU diplomats, many of whom initially questioned his appointment to a job which puts him in charge of nearly half the EU's budget.

Having spent all his working life in agricultural jobs, including the six previous years as Austrian farm minister, he knew the subject. But he was not seen as a big political hitter.

There were fears he would be a poor match for commissioner colleagues who include former prime ministers, foreign ministers and party leaders.

Mr Fischler's main concern was his lack of modern languages – ancient Greek and Latin have limited application in Brussels – so he set about learning English. He now speaks it with near fluency.

He has also impressed with, and benefited from, his choice of advisers. Many commissioners appoint almost exclusively from their own countries. Mr Fischler's team includes an Italian chef de cabinet, who has widespread experience in the US, together with a Frenchman, a German, an Italian and three Austrians. His spokesman is Irish.

The eclectic choice has helped him to deal with some of the most controversial issues facing Brussels in recent years. First came the BSE crisis after British scientists found a potential link between the so-called mad cow disease and nvCJD, a similarly fatal illness affecting people.

The link caused furore throughout Europe and at one stage the European parliament threatened to sack the whole commission over the crisis. Mr Fischler's skilful handling of MEPs' complaints helped to see off the censure threat.

The recent lifting of an EU ban on British beef exports should, with luck, end the worst of the crisis.

He has made mistakes on BSE. Plans to ban parts of cattle from the food chain have been delayed after it emerged that weak drafting of proposed legislation by farm officials could have led to a ban on life-saving drugs and a potential trade war with the US. Curiously, he is rarely blamed either privately or publicly for this episode.

Mr Fischler's big initiative has been his attempt to persuade EU countries to adopt the most wide-ranging reform of the CAP ever attempted.

Proposed cuts in guaranteed prices which farmers receive for beef, milk and cereals have prompted widespread protests both from agricultural communities and farm ministers.

Mr Fischler argues that the reforms are necessary to enable the EU to expand to the east and to enable farmers to take advantage of export opportunities. Despite the volume of opposition, most diplomats believe he is winning the arguments and will get something close to what he wants.

That could leave him free to return to Austrian politics or to take on another portfolio in the European Commission. His ambitions are more limited.

He says he wants to stay in Brussels for a second five-year term of office, starting January 2000, and that "my preference would be to remain farm commissioner".

There is, he says, "no truth whatsoever" in rumours that he will challenge next year for the leadership of the Austrian People's Party.

Nor does he want to be Austrian president when the job next comes up in 2004: "I would not be the right person," he says.

Michael Smith

PRIVATISATION by William Hall

Ready for take-off

The pace has slowed, but recent successful sales of state holdings give encouragement that there will soon be a resurgence in activity

Austria's privatisation programme, one of the most successful in Europe, has been marking time over the past year.

There have been no big privatisations since the sale of 49.5 per cent of the shares of Austria Tabak in November 1997, the second biggest in Austrian history.

Nevertheless, Erick Becker, who, along with Karl Hollweger, runs Osterreichische Industrieholding AG, the state holding company, is confident that the privatisation machine will soon be back in action.

Last year's initial public offering of half of state-owned Austria Tabak was a great success. Its shares have jumped two-thirds since then, and with a market capitalisation of around Sch17bn it has overtaken VA Tech and VA Stahl in terms of size.

If Austria Tabak continues to perform well the OIAG will probably proceed with a secondary public offering in 1999 of another 30 per cent of the shares. It could coincide with a capital increase which could result in the state's stake falling to 35 per cent.

OIAG has also taken on responsibility for selling the public stakes in Flughafen Wien, Vienna's airport, and Austrian Airlines, the national carrier. The latter has delayed plans to raise capital because of the recent turbulence in the stock market. But, since both are already quoted companies, further sales by secondary offerings should not pose much of a problem.

Recent privatisation issues

	Date	Size (Sch bn)	Issue price (Sch)
VA Tech	1994	5.9	500
Austria Tabak	1997	4.9	535
Böhler-Uddeholm	1995	4.1	550
OMV	1996	3.7	1,055
VA Stahl	1995	3.1	285
Vienna airport	1995	2.7	475

And what's left to privatise

	Govt stake (%)	Approx value (Sch bn)
Telekom Austria	75.0	80.0
OMV	35.0	9.7
Austria Tabak	50.5	8.5
Austrian Airlines	51.9	4.8
VA Stahl	38.8*	3.7
VA Tech	24.0**	3.8
Böhler-Uddeholm	25.0	1.5
Vienna airport	17.4	1.5
Vienna stock exchange	50.0	n/a
Dorotheum	100.0	n/a
State printers	100.0	n/a
PSK	100.0	n/a

Source: FT research

* VA Tech owns another 19.[illegible]
** VA Stahl owns another 19.05%

In contrast, OIAG's plans to privatise Osterreichische Staatsdruckerei, the state printing and publishing company, the Dorotheum, Vienna's oldest and most famous auction house, and a half share in the Vienna Stock Exchange pose more of a challenge.

All three are relatively small operations and not particularly efficient. However, the privatisation of the nearly 300-year-old Dorotheum, which counts Mozart among its earliest customers, could attract considerable international interest.

The Palais Dorotheum is not only an auction house but also a bank, pawnbroker and the biggest jeweller in Austria. It has 13 branches in Vienna, nine in the rest of Austria and offices in Prague, Brussels and Tokyo.

It also has the added advantage in that it is trusted by its customer base. In Catholic countries, the role of pawnbrokers has traditionally fallen to either the church or the state, and in Austria the Dorotheum has become a household institution for both rich and poor.

However, it is not in the same league as as Sotheby's and Christies and could be sold by a trade sale to an investment trophy hunter.

Meanwhile, the Austrian government has made progress with another big privatisation challenge. In October, the state-owned Post und Telekom Beteiligungsgesellscahft, which has close ties to OIAG, sold a 25 per cent stake in Telekom Austria, the state-owned telecommunications company, to Telecom Italia, for Sch27.2bn.

Mr Becker, who sits on the PTBG and Telekom Austria boards, says that the decision to opt for a trade sale rather than a stock market flotation was motivated by the need to find a strategic partner for Telekom Austria.

"We needed support to deal with the new competition and manage all the regulatory problems," he says. The Italian partner has helped to develop Telekom Austria's mobile business, in which it has stake, and is helping it expand into neighbouring countries, including Croatia.

Nevertheless, OIAG is still intent on bringing Telekom Austria to the stock market by 2001. Mr Becker says he hopes that if he can raise Sch20bn through the sale of a 25 per cent stake and sell the government's stake in PSK, the postal savings bank, he could be close to wiping out the Sch30bn debt of PTBG.

PROFILE
FRANK STRONACH

Entrepreneur who came back to leave his mark

The car parts chief's ideas of corporate governance have been welcomed, but not so some of his other ambitions

Ever since Frank Stronach, the chairman of the Canadian automotive group Magna International, returned to Austria to turn his country of birth into his European company base, he has become a celebrity and a source of controversy. With myriads of opinions and ideas, the 66-year-old entrepreneur generates constant headlines and leaves his marks in Austrian business, life style and sports.

While his paternalistic ideas of corporate governance have been widely welcome in a country that still feels uncomfortable with unfettered free markets, his determination to get his way with all his projects have also caused plenty of bad blood over the years.

Mr Stronach was born in a small town in Styria, near to the birthplace of Arnold Schwarzenegger,the Hollywood actor. At the age of 22, he left for Canada, where he started to produce machine tools in a garage. Over the years, he turned his Magna group into one of the world's main car parts producers with sales of more than $6bn and 50,000 employees worldwide.

After a brush with bankruptcy in the early 1990s, Mr Stronach engineered an impressive comeback and became increasingly interested in the European car market.

He invested heavily in Styria, where he helped to create a highly successful cluster of car part companies, and built his European corporate headquarters on an idyllic plot of land with a medieval castle in Oberwaltersdorf, a village south of Vienna. There, he realised his vision of the ideal living environment by building an 18-hole golf course and luxury residences around an artificial lake, where he urged his managers to live.

The majority shareholder of Magna leaves the day-to-day management of the group to his executives and spends his time and money to pursue his other visions. But as his ambitions grow, scepticism about his ideas also increases.

Near the Magna headquarters, Mr Stronach plans to build a theme park that would tell the history of mankind in an 80-metre diameter sphere. It would


Frank Stronach: generates headlines Picture: AP

also feature hotels, restaurants and a horse racing track. The Sch7bn project would attract 20,000 visitors every day, Mr Stronach claims, although critics say it is economically unviable, would spoil a nature reserve and create excessive traffic in the area. A grass-root movement by local residents is fighting hard to stop him.

His plans to build a large

Close contacts with Austria's business and political elites helps him with his ventures

holiday resort on unspoilt land on Lake Woerther in Carinthia are also controversial. He has little sympathy for such concerns. "It's like the Eiffel tower. That was also opposed by all at first," he says.

Mr Stronach, who speaks German with a heavy North American accent, has close contacts with Austria's business and political elites, which helps him with his ventures. Former chancellor, Franz Vranitzky, and Gerhard Randa, the chairman of Bank Austria, the biggest bank, sit on his board of directors. In March, he acquired the majority stake in the automotive group Steyr-Daimler-Puch (SDP) from Bank Austria for Sch4bn, a price that other shareholders thought was too low. For every new plant he builts, he receives plenty of subsidies.

Mr Stronach claims that he is guided not by the profit motive alone, but by a desire to help his home country – a country that had once given him a head start by providing him with a good training and a management philosophy that gives all employees a stake in the company. In exchange, he tries to keep trade unions at bay. "No government and no union can give this country what it needs, which is new ideas and satisfied customers. This is the only way to create new jobs," he says.

Mr Stronach has lately shifted his interests to Austrian football. First he tried to buy the Vienna football club Austria. Then he offered to buy the television rights of the major football league for Sch100m a year, which he may want to use to start his own sports channel. The ardent fan of horse races, who owns between 500 and 700 race horses, also hopes to turn Vienna into a leading horse racing centre by building a large new race track. Whether Mr Stronach will see these projects through, or moves on to new ideas, remains to be seen.

Eric Frey

RESTITUTION by Eric Frey

Nation's past remembered

Officials and business leaders have tried to ensure Switzerland's mistakes in relation to Holocaust victims are not repeated

While Austrian public officials and business leaders watched Switzerland become the target of criticism, condemnation and even boycott calls by Jewish groups and the US public because of its role during and after the second world war, they knew that the international spotlight would eventually turn on their country.

After this prediction came true this year they are trying everything to avoid the Swiss mistakes.

In contrast to its western neighbour, Austria has been extremely forthcoming from the start with every international query over property stolen from Jews between 1938 and 1945.

When two paintings by expressionist artist Egon Schiele were impounded in January by the Manhattan district attorney Robert Morgenthal during an Austrian Schiele exhibition at the Museum of Modern Art in New York because two Jewish families claimed that they were rightfully theirs, the Vienna government initially protested.

But then the minister for the arts, Elisabeth Gehrer, set up a commission to investigate how many works of art in Austrian museums were stolen from Jews or acquired in questionable circumstances. The first probe on federal museums has already yielded nearly 1,000 objects which will now be returned to the proper owners.

And when Bank Austria, the largest bank, was sued in the US over alleged ties of its Creditanstalt subsidiary to the Nazi death machine, it promised full co-operation and disclosure.

Several banks and industrial groups, such as Postsparkasse and Steyr, set up historians' commissions to find out whether they had profited from forced labour, stolen property or other business dealings during the war.

Parliament voted in 1995 to give every Austrian Jew a lump sum payment of Sch70,000

This autumn, the government of Chancellor Viktor Klima set up its own historians' commission to look into the whole range of looting, theft, extortion and expropriation that took place after Germany annexed Austria in March 1938.

They have far more to look into than their colleagues in Switzerland.

About 180,000 Jews, or 10 per cent of the population, lived in Vienna at the time and many of them were affluent. Within months of the Anschluss they were mostly driven into exile while the stores, companies, bank accounts, apartments, furnishings and art collections they owned were bought for a pittance or stolen outright by neighbours, strangers or public authorities. Of those Jews who could not escape, 65,000 perished in the Holocaust.

After the war the new democratic government was reluctant to invite the emigrants back and even more to compensate for property losses.

"I would recommend to drag it out," said the then interior minister, Oskar Helmer, about restitution at a post-1945 cabinet meeting.

Arguing that Austria was itself Hitler's first victim, the government did not follow Germany's example and pay official restitution to Holocaust survivors. Because Germany did not include Austrians in their scheme, they were left without any financial support.

Even today, Jewish immigrants from Austria are less well off in the US and the UK than those from other countries.

Viennese restorer, Manfred Siems, examines a picture by Egon Schiele. The work was part of a Schiele exhibit in New York. Picture: AP

Only in the 1960s did parliament pass a law granting minimum pension rights to former Jewish citizens, but Jewish groups refuse to consider these payments as restitution.

Austrian Jews who tried to get their family property back after 1945 were often forced into extended legal battles, and some never succeeded. And those who returned to get their stolen art collections back were told that they had to leave some precious works to the state just to get permission to take the others out of the country.

Through this form of extortion public museums acquired a share of the Rothschild collection and hundreds of other master works.

This attitude changed only in recent years. When Austrians elected the former UN secretary general Kurt Waldheim as their president in 1986, despite evidence that he lied about his role as a German officer during the second world war, the country became an international outcast just like Switzerland a decade later.

This experience convinced many Austrians that they had to face their country's responsibility for the Nazi crimes openly.

Chancellor Franz Vranitzky went to Israel to apologise for the crimes committed by his compatriots, and in 1995 parliament voted to give every Austrian Jew a lump sum payment of Sch70,000.

Two years later, hundreds of expropriated art works that were kept for decades in the Mauerbach monastery outside Vienna were auctioned off and the receipts given to the Vienna Jewish community to be distributed among Holocaust survivors.

The calls for restitution gained further momentum this spring when the Jewish community elected a new president, the first to be born after the war.

Ariel Muzicant, 46, was more willing to address the issues than his predecessors who had personally suffered Nazi prosecution, and immediately called for talks on a comprehensive restitution deal.

He did not make concrete financial demands, but asked for an in-depth probe into all acts of expropriations.

"If Austria wants to find peace with its history, its Jews and itself we have to make sure that the whole truth is revealed and is being addressed," he said.

This approach enjoys wide support among the public. Even the far-right Freedom party and the tabloid papers, which are usually quick to blame the government for giving in to foreign pressures, have remained silent this time.

Despite all these efforts, Austria may still not be able to deflect the anger of Holocaust survivors and Jewish organisations. Adequate compensation for Jewish property would cost billions of dollars, and this does not include any of the human suffering.

Even so, the wide debate over responsibility and restitution has helped a younger generation to understand better the darkest sides of their country's past.

CASE STUDY
THE CITY OF GRAZ

On the road to becoming a centre of excellence

An attractive old university town is today an important industrial centre and focal point for a wide range of exports

Graz, Austria's second biggest city and the capital of the regional province of Styria, is an attractive old university town which has produced Holy Roman Emperors and Kings of Germany.

It counts Arnold Schwarzenegger, the US film star, and the conductor, Nikolaus Harnoncourt, among its best known exports.

However, these days Graz is better known for producing four-wheel-drive jeeps and diesel fuel injectors than musical symphonies and Nobel prizewinners. Unlike Salzburg and Vienna, which still seem stuck in an imperial time warp, Graz has been revitalised as the capital of Austria's fast-growing automotive industry.

Since 1995 numbers employed in Graz's motor-related industries have jumped from 7,000 to 12,000 and over the past 20 months Sch10bn has been invested in creating 2,000 new jobs. Next year Daimler-Benz will start producing 30,000 four-wheel-drive Mercedes M-class cross-country vehicles a year at Graz's Steyr Daimler Puch Fahrzeug Technik.

Next door, Chrysler Eurostar is boosting its Graz-based production of Jeep Grand Cherokees to 47,000 a year and will soon be producing 60,000 Voyager minivans a year.

If you look under the hood of a Mercedes, Porsche, Suzuki, Ford or Rolls-Royce, to name but a few, as likely as not there will be a component from Graz. Two out of every three BMWs sold worldwide have Austrian engines and Graz is known the world over as one of the premier centres for the development and manufacturing of fuel-injected diesel engines.

The seeds of Graz's motor industry were sown more than 100 years ago when Johann Puch set up a bicycle company there. By 1904 he had started building cars.

While production of the last model, the Puch 500, ceased in 1974, Steyr Daimler Puch has developed into one of the world's leaders in four-wheel-drive technology and exports the vast bulk of its production.

Nikolaus Harnoncourt: a Graz export Picture: AP

Initially, it concentrated on military vehicles such as the formidable Pinzgauer, used by the British and Swiss armies, among others. However, as the global market for recreational four-wheel-drive vehicles took off, it began to develop new models in conjunction with companies such as Mercedes, Opel and Chrysler.

The second company which lies at the heart of Graz's success is AVL List, the largest privately-owned engine development and testing company in the world.

It was founded in 1948 by Hans List, a university professor who knew all there is to know about diesel engines. Today, the business, still family owned and run by Helmut List, the founder's son, has grown into a global consultancy with 25 subsidiaries and 15 engineering offices in cities ranging from Detroit to Tokyo and Beijing.

Last year Graz came first in Chrysler's worldwide productivity ranking

AVL List develops around 20 new engines a year and, while its client list is a closely guarded secret, there is hardly a vehicle manufacturer in the world that has not called on its services to develop a new engine at some time. The tremendous commercial success of Ford's Transit van was based on an AVL breakthrough, the first high-speed, direct-injection diesel engine.

AVL List has recently developed a software programme to measure the "driveability" of engines which should lead to a dramatic reduction in the testing time for new engines.

"We can run a formula one car on our test beds," says Professor List, who is also chairman of the European Union's Industrial Research and Development Advisory Committee, the EU's main advisory body for research and development. AVL List regularly wins prizes as Austria's most innovative company.

Together with BMW, AVL List has formed a "world centre of excellence in diesel technology" in Graz to meet the growing demand for more efficient and less noisy diesel engines. But it is not only diesel engines which interest Professor List.

In 1969, his company branched out into medical technology with the launch of the first blood gas analyser. Today, it is the industry leader in blood testing technology and recently signed a co-operation agreement with Boehringer Mannheim, now part of Swiss pharmaceutical giant Roche.

Scott File, plant manager of Johnson Controls' new Graz facility which makes seats and interior systems, says there is a "great work ethic" in the area. He has quadrupled his workforce over the past three years to nearly 200 and has not had difficulty recruiting the right staff. "You do not have to teach people about quality," he says.

Chysler's Gary Cash, who is responsible for overseeing the manufacture of Chrysler's Voyager minivans and Grand Cherokee jeeps, is equally complimentary about his adopted home.'

Graz's success has a lot to do with its local education system, he says. Chrsyler can hire workers whose "technical abilities and attitude" are among the best in the world. Last year, Graz came first in Chrysler's worldwide productivity ranking.

William Hall

Not the only option: a production of Mozart's 'Magic Flute' at the Salzburg festival. The high prices charged for such events may mean it is time to look to other parts of the country for musical entertainment

CULTURE by George Hamilton

Music sounds from a different source

Vienna and Salzburg are not the only centres for concerts and opera

Mention Austria and the sound of music, and Vienna and Salzburg invariably spring to mind.

Hardly surprising, given the country's globally known musical ambassadors, such as the Vienna boys' choir, the Vienna Philharmonic's New Year concert and the Salzburg festival.

But prices at these premier events have sky-rocketed. A ticket to a Salzburg concert or a New Year event in the "golden hall" of Vienna's Musikverein can easily cost more than Sch4,000 ($334).

But those willing to settle for less may find more. Austria offers ample regional alternatives to the big name attractions.

Opera enthusiasts in search of adventure might want to sample the fare in Graz or Linz, where productions can be every bit as good as in Vienna or Salzburg. Linz, which hosts an annual Bruckner festival every September, should have a new $100m, 1,100-seat opera house by 2003. Meanwhile, Graz's 19th century opera house is known as an excellent scouting ground for new vocal talent.

Carinthia's summer festival, in July and August, splits events between Villach and the village of Ossiach on the idyllic lake of the same name. The fare ranges from intimate Liederabende in the 11th century Ossiach monastery to full-blown symphony concerts in a new hall in Villach.

Next year's offerings include the Bamberg Symphony with pianist Rudolf Buchbinder as soloist and conductor, the Moscow Symphony under Pavel Kogan and the Tchaikovsky State Symphony Orchestra conducted by Vladimir Fedoseyev.

There will be a new children's opera marking the 100th anniversary of Johann Strauss's death and a mini-Schubertiade with renowned bass-baritone Robert Holl.

Few experiences are more thrilling than hearing Haydn's music in the very hall where it was first performed

Ossiach, largely unknown to tourists, offers outstanding music without the stiff, overdressed formality of a tourist-packed Salzburg.

For an equally rewarding musical holiday try the easternmost province of Burgenland. The charming capital of Eisenstadt, where Haydn was house composer to the Esterhazy princes, hosts a Haydn week next year from September 9-19, featuring, but not limited to, works of the town's most famous citizen.

Few experiences are more thrilling than hearing Haydn's music in the very hall where it was first performed.

Some 22km south-east of Eisenstadt the shores of Lake Neusiedl will echo next Summer – mid-July to the end of August – to Johann Strauss' rousing operetta of trysts and mistaken identities, A Night in Venice. Singers come from Vienna's Volksoper to take the roles of spaghetti cook, a fisher girl, senators and their wives in the lively confusion of abductions and seductions.

The lakeside setting could not be bettered for the romantic gondola scenes and the fireworks climaxing the operetta's final carnival scene is a show unto itself.

Burgenland is packed with summer musical specials. One of the more ambitious is an outdoor opera in a quarry at St Margareten, 12km south-east of Eisenstadt.

Mozart's Masonic-inspired masterpiece The Magic Flute is the spectacle scheduled for August 15-21 next year.

The annual international jazz festival at Wiesen, 12km southeast of Wiener Neustadt, is another option. One weekend in early July it becomes Austria's answer to America's Woodstock festival, with top artists from around the world in tented and open-air performances.

At the opposite end of the country, Bregenz on Lake Constance vies with Salzburg as Austria's summer musical capital. Verdi's richly orchestrated and dramatic opera A Masked Ball will be featured from July 21 to August 22 on Bregenz's impressive lakeside stage.

Richard Jones and Antony McDonald have been engaged to handle production and the Vienna Symphony will provide the music.

As a modern alternative, Bohuslav Martinu's unfamiliar Greek Passion performed in English will be staged in the festival hall, also with the Vienna Symphony, as a co-production with London's Royal Opera House, Covent Garden.

Vorarlberg's annual Schubertiade has earned a deserved reputation well beyond Austria's borders. Top rank artists include Barbara Bonney, Alfred Brendel and Wind Ensemble Sabine Meyer.

Performances rotate during the months of May, June and September between stately churches, ancient castles and auditoriums in Feldkirch and Schwarzenberg in Vorarlberg and Lindau in neighbouring Germany.

Concerts range from vocal and chamber recitals to full symphony concerts of the works of Schubert and contemporaries.

For further information:
- *Carinthian Summer, Gumpendorferstr. 76, A-1060 Vienna, tel: +43 1 596 8198, fax: +43 597 1256; or July/August, Stift Ossiach, A-9570 Ossiach, tel: +43 4243 2510, fax +43 4243 2353;*
- *Burgenland Tourismus, Schloss Esterhazy, A-7000 Eisenstadt, tel: +43 2682 63384 16, fax: +43 2682 63384 20;*
- *Graz Tourism, Herrengasse 16, A-8010 Graz, tel: +43 316 80750, fax: +43 316 8075 55;*
- *Linz Information, Hauptplatz 5, A-4010 Linz, tel: +43 732 7070 177, fax: 43 732 772873;*
- *Vorarlberg Tourismus, Bahnhofstr. 14, A-6901 Bregenz, tel: +43 5574 42525 0, fax +435574 42525 5.*

FT file | **Constitution** | **Economic summary**

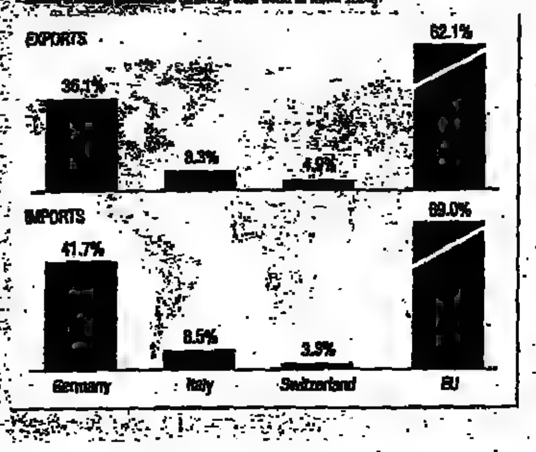
- Area: 83,859 sq km
- Language: German
- Currency: Schilling (Sch)
- Exchange rate: 1997 average $1= Sch12.201; December 7 1998 $1 = Sch11.794

Constitution

- Official name: Republic of Austria
- Form of state: Federal republic of nine provinces. Member of the EU 1995
- Legal system: Based on the constitution of 1920 as amended in 1929
- National legislature: Bicameral. National Assembly (Nationalrat) of 183 members with seats distributed first among 43 constituencies, then among the nine provinces and the remaining seats at federal level; this system gives both fair regional and fully proportional representation. Federal Assembly (Bundesrat) of 63 members elected by provincial parliaments
- Electoral system: Universal direct suffrage over the age of 18
- National elections: December [illegible] 1995; next election due by December 1999
- Head of state: President, directly elected for a maximum of two six-year terms, with no [illegible] powers in practice. Currently Thomas Klestil, re-elected in April 1998
- State legislature: Nine provincial parliaments, each of which appoints its own provincial governor
- National government: Council of Ministers headed by the federal chancellor appointed by the president. Currently a coalition of Social Democratic Party (SPÖ) and People's Party (ÖVP)

Economic summary

	1998 (Forecast)	1999
[illegible]	209.5	222.2
[illegible]	3.0	3.2
[illegible]	[illegible]	27,348
[illegible]	1.2	1.5
[illegible]	[illegible]	2.8
[illegible]	5.5	4.5
[illegible]	7.2	7.0
[illegible]	63.4	62.8
[illegible]	-2.8	-2.8
[illegible]	60.8	66.2
[illegible]	63.2	68.5
[illegible]	-2.5	-2.3



Source: Economist Intelligence Unit

THE GASTRONOMIC REVIVAL by Giles MacDonogh

Imperial glories are brought back to life

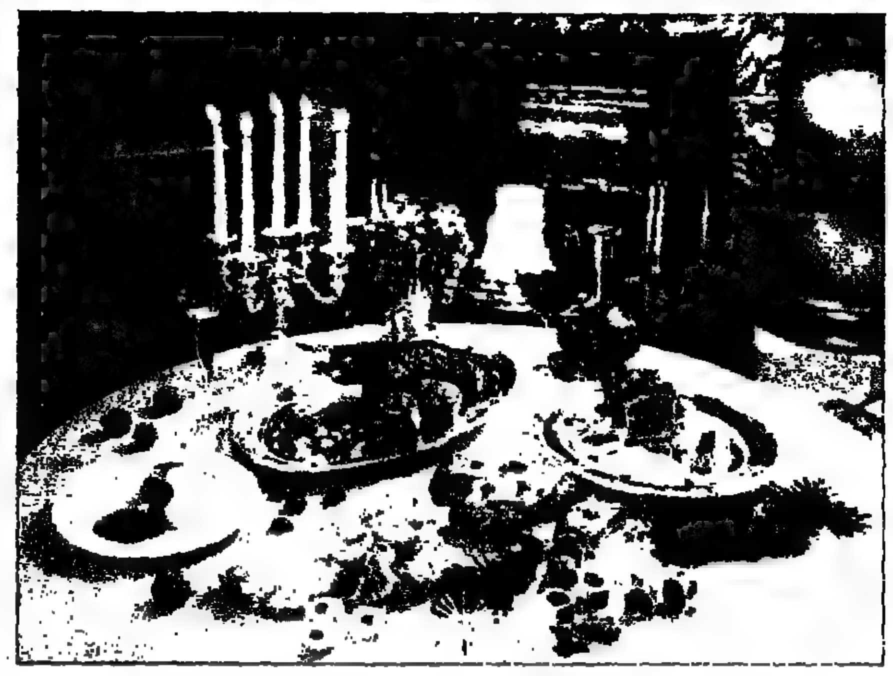
Rich traditions have been revived to combat what was called a national scandal

We have all had it, the very basic food of Austria. It is the standard offering of the *Buschenschank* or country inn – cold sausage and slimy cheese, chunks of Speck or fatty bacon sometimes minced as "Verhackertes", Liptauer (curd cheese with paprika), cold roast pork with multi-coloured salads.

Then there is the hot version from the village Gasthaus or the urban Beisl – thin soup with an "Einlage" such as chopped pancakes or a liver dumpling, hot roast pork, schnitzels (pork unless you intone "vom Kalb"), chicken in breadcrumbs and the array of doughty puddings which run from dumplings to the unfinishable *Salzburger Nockerl* or Kaiserschmarrn.

All right if you are really hungry, but otherwise nothing to write home about. So why is it that German gourmands are swarming over their southern border in pursuit of good food?

Why, indeed, are so many of Germany's top restaurants either run by Austrians or serving Austrian food? Why was an Austrian voted America's top chef last year? Clearly things have changed. From Burgenland to Bregenz a restaurant culture has finally taken off.



Food for thought: the country's restaurant culture has finally taken off

The Austrian gastronomic revival began in the mid-seventies. One of their own number, Eckhart Witzigmann, who had trained under the great Paul Bocuse in Lyon and was now going great guns at his own "Tantris" in Munich, revisited Vienna and declared the food "frightful".

Some of the younger Viennese chefs decided to rectify what was fast becoming a national scandal. They ate in the top restaurants in France and when they returned they formed the "Club Wien", made up of those who subscribed to the rules of the "New Viennese Cooking".

They looked very similar to the principles of the French *nouvelle cuisine* but inspiration was to be gleaned, where possible, from Austrian and Central European traditions.

Those traditions were rich. Like London, Vienna had once been the fulcrum of a large empire. Bohemians had been famous bakers and pastry chefs, Magyars had worked with paprika, goose livers and pancakes and most of northern Italy had formerly lain under the Austrian aegis. This proved a rich source of inspiration.

The most famous survivals from those heady days are Rudi Kellner at the Altwienerhof, Reinhold Gerer at Korso in the Bristol Hotel and Heinz Reitbauer at Steirereck, all in Vienna.

Twenty years ago both Altwienerhof and Steirereck were little more than "Beisls", the equivalents of simple French bistros or Italian trattorie. Now these restaurants are considered among Austria's very best.

Where possible they worked in an Austrian idiom but tried to lighten the food and get away from the over-reliance on pork and flour. Kellner, for example, adapted the popular chocolate Mozart Kugel, making the bullets out of foie gras.

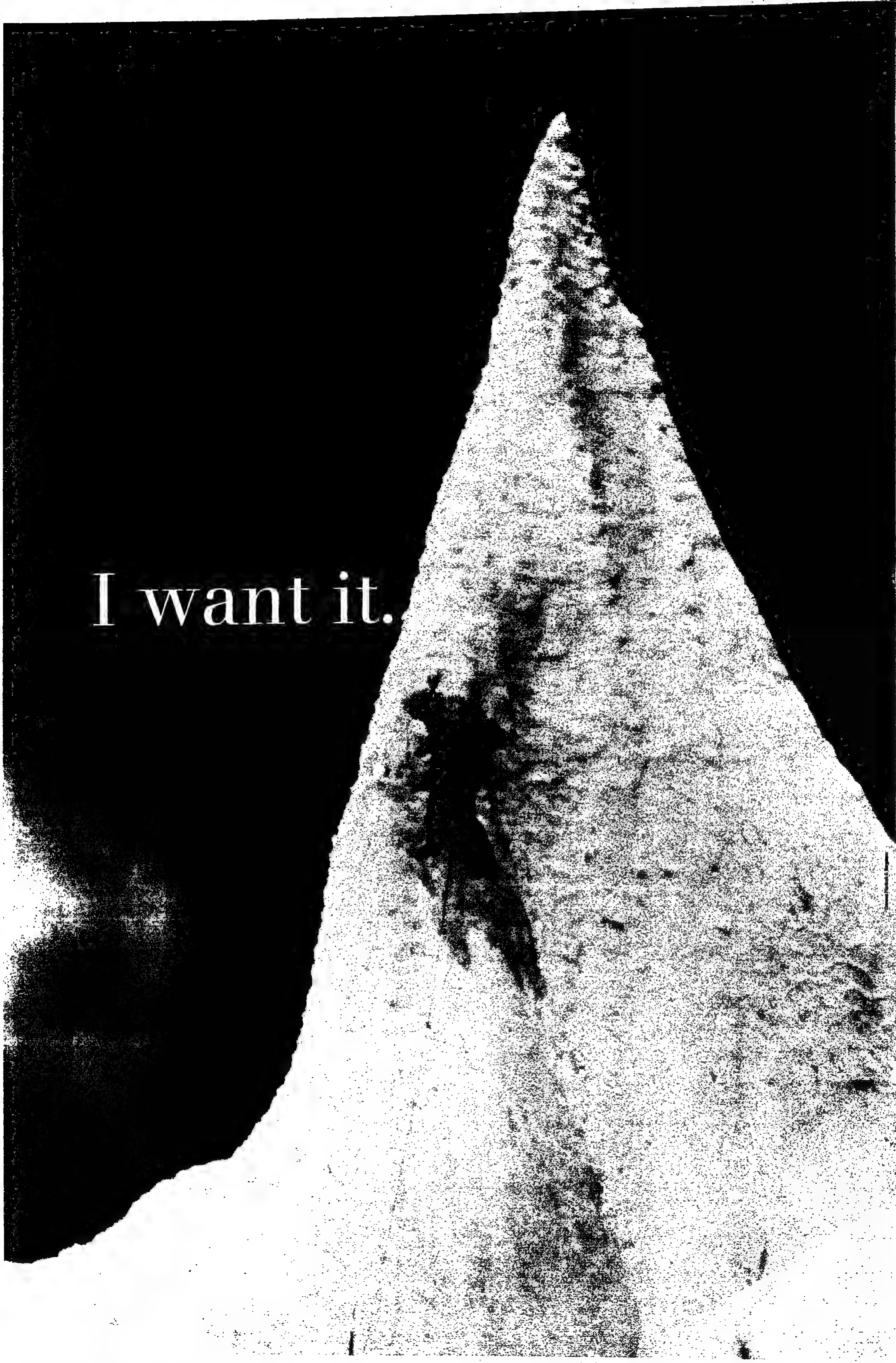
Strudels could be stuffed with anything from goose livers to sweetbreads. Gerer was even able to refine the *Beuschl*, a local dish made from calves' lungs which is often best left untranslated for squeamish foreigners.

That *Beuschl* raises another issue. While much was ripe for reform in post-war Austrian cooking, there remained an individuality about Vienna's traditional Beisls which was to be found nowhere else.

Earthiness was the keynote, offal the most highly prized ingredient. Anyone looking for an experience of this sort should go to Grunauer in Vienna's Seventh District.

A new generation has grown up since 1978 which takes the changes for granted. Steirereck in Vienna is still considered to be Austria's best restaurant, but there are many others where the quality of the cooking does not fall far short – Obauer at Werfen in the Salzkammergut, Taubenkobel at Schützen in Burgenland – my personal favourite – Korso or Bauer in Vienna or the Deuring-Schlössle in Bregenz.

Some may scoff, especially those who have only known bog-standard Austrian food on their ski-ing holidays. But it might be worth recalling the state of British food 20 years ago – that self-confident "Modern British Cooking" we hear so much about today was still on the drawing board.


I want it.

PRIVATE FINANCE INITIATIVE

Optimism all round as new deals flow in

The appointment of a task force to expedite procedures has breathed new life into the initiative, writes Nicholas Timmins

Is this as good as it gets? Well, it just might be.

After six years of the private finance initiative in the UK, when the promise has always seemed to be jam tomorrow, there is now at last a good flow of deals emerging. The PFI has over the past six months finally started to gel, and there is a discernible sense of optimism about.

More than £11bn in deals have been signed in total since 1992, but £4bn of those have been closed since May 1997, when Labour took office, cleared away the nonsense that every public sector capital purchase had to be tested for PFI and appointed the Treasury task force to expedite the process.

What might be described as the backlog of deals that were under negotiation when the Conservatives left office has been cleared by the task force, and future ones should benefit from the smoother process that the task force has been working to put in place.

The government's forward projections are that another £11bn of deals will be done over the next three years, with transport, health, education and local authority deals dominating, and defence, a relatively late developer in PFI, continuing its enthusiastic adoption of the process.

But will the numbers expand further? Perhaps not, says Adrian Montague, the task force chief executive. But then, the nature of the PFI is changing.

"About £3bn to £4bn of deals a year is a good level to be at," he says. "There will be the odd big one like the Channel Tunnel Rail Link which will cause the figures to blip upwards from time to time. London Underground will be a big one in due course."

But whether this is the settled level of PFI deals on offer, he argues, will only really be known when the departmental investment strategies are finalised in the spring.

This does not, however, mean that there are not other and large opportunities for the private sector, both in providing government services and in exploiting – it is hoped to mutual benefit – opportunities that the public sector can offer.

Mr Montague says: "I think what we are starting to see is a blurring of the private finance initiative into public-private partnerships, so that there will be deals involving private capital and private management and skills which don't strictly involve the building of an asset to provide a service, but which nonetheless keep the interest of the markets and will be treated as an offshoot of PFI."

Two particular types of deal come to mind. One is the government's "wider markets" approach. This involves the public sector working with the private to exploit intellectual property which the public sector owns – for example the development by the Ministry of Agriculture of an electronic tagging device for fish which is to be marketed with the private sector, not sold off as a licence but in a joint venture which should see returns for both the public and private sectors.

"Wider markets isn't PFI," Mr Montague says. "It is radically different, because it is selling asset potential rather than buying long-term services.

"But the drive is to use private capital and skills to get better value from what is already there."

The second is newer types of public-private partnerships, such as some of the more recent IT deals.

"Some of these have very low capital values but large revenue payments because they are outsourcing a large chunk of people as well," he says. "They are not really PFI deals. They are private sector partnership deals but we include them in the statistics, and perhaps we should give some thought to how we categorise these.

"But there are other newish types of partnership which will require private sector investment, some of them property-based deals."

These will be different from Prime, the sale of the social security department's massive property portfolio.

Mr Montague says: "These newer deals will be done with government portfolios that have development potential, but done in a way where you don't just flog them off but you do involve private sector capital, skills and management in trying to get good value – deals in which the private sector will share but where returns will also flow back to the public sector."

In other words, he says, the initiative is broadening.

This does not, of course, mean that PFI is now operating in a cloudless sky. The potentially profound implications from the Accounting Standards Board's recent rulings on which PFI projects should count on the government's balance sheet are still being worked through.

Disagreements within the accountancy profession over precisely how, in the words of those most profoundly affected, the board's "theoretical and almost metaphysical publication" will translate in practice remain.

The Treasury, however, is exuding a quiet air of confidence that an acceptable agreement can be reached and is planning fairly detailed, project-based guidance which it says "will take a lot of the uncertainty out of the application of the ASB's principles".

And the timing has not been all bad. The teasing out of the implications of the board's pronouncement comes as the task force, after a deluge of comments, is finalising the standard contract clauses for PFI which it hopes to produce in the next few weeks. These can now fit the new rules.

The National Audit Office has been asked for its advice on the standard clauses and Tim Wilson, head of the policy arm of the task force, says: "Once we have Treasury-backed conditions on which to do business it will take a lot of pressure off procurement teams.

"They won't stand still, but they will have some kind of benchmark around which people can be sensible in their negotiations."

Critically, also, such benchmarking should ameliorate the position the public sector has got itself into where "we have first of all intensive negotiations with the preferred bidders, and then almost similar negotiations with the lenders", Mr Montague says – a position that is "just daft".

Providing the balance of risk and reward is right. Some in the public sector believe the task force is giving away too much, some in the private sector believe the public sector is trying to screw them.

PFI deals should be on an assembly line "where projects can be completed without the delay and expense of the intensive contract negotiations that bedevil the present process," Mr Montague says.

The assembly line, however, may still require a supervisor and the future of the task force, plus much else in the world of PFI and public-private partnerships, is under review again by Sir Malcolm Bates, whose survey immediately after Labour took office breathed new life into the process.

Sir Malcolm prescribed that the task force should have a two-year life, which expires around August next year, on the assumption that departments and the Treasury should then be able to cope on their own. Few believe that many departments are yet up to it.

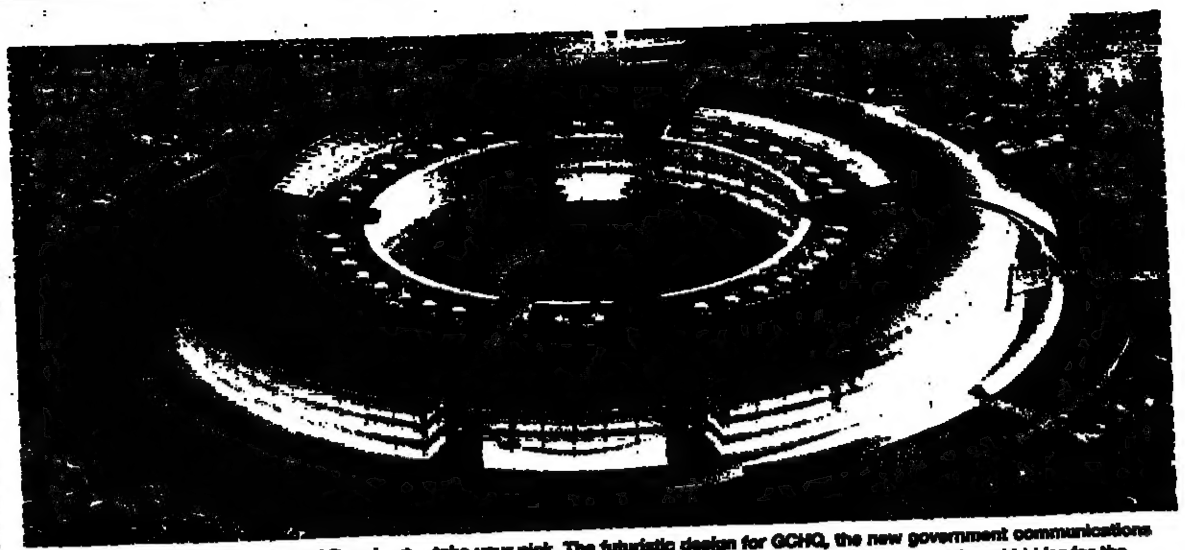
The private sector, having adopted an air of cynicism to the task force when it was announced, is in the main now desperate not to lose it.

Sir Malcolm himself, however, plus some on the task force, worries that merely extending it may produce the fate that its predecessor, the private finance panel, suffered, as it went through succeeding generations – a slow decline in both quality and influence.

Some other way of getting and keeping a strong private sector voice on the public side of the fence will be sought along with a means of ensuring that when departments do build up their expertise in PFI they do not promptly lose it again because the civil servants who have learnt the trade are moved on to other jobs.

Planned capital investment by [illegible]

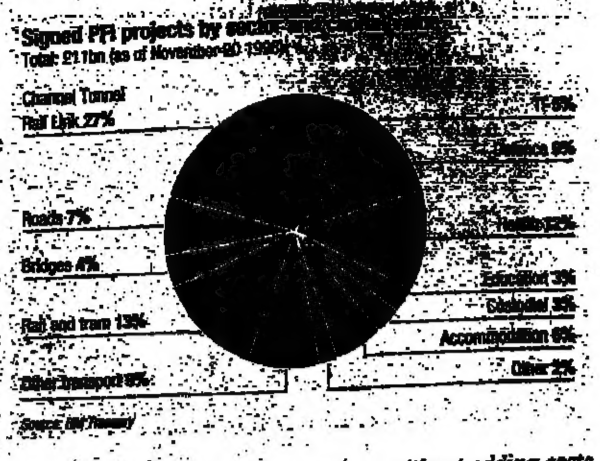
Sponsor department	[illegible]	[illegible]	2000-01	2001-02
Defence	[illegible]	[illegible]	[illegible]	[illegible]
Foreign Office and overseas development	[illegible]	[illegible]	[illegible]	[illegible]
Agriculture	[illegible]	[illegible]	[illegible]	[illegible]
Trade and industry	[illegible]	[illegible]	[illegible]	[illegible]
Environment, transport and the regions	[illegible]	[illegible]	[illegible]	[illegible]
Education and employment	[illegible]	[illegible]	[illegible]	[illegible]
Home office	[illegible]	[illegible]	[illegible]	[illegible]
Legal departments	[illegible]	[illegible]	[illegible]	[illegible]
Culture, media and sport	[illegible]	[illegible]	[illegible]	[illegible]
Health	[illegible]	[illegible]	[illegible]	[illegible]
Social security	[illegible]	[illegible]	[illegible]	[illegible]
Scotland	[illegible]	[illegible]	[illegible]	[illegible]
Wales	[illegible]	[illegible]	[illegible]	[illegible]
Northern Ireland	[illegible]	[illegible]	[illegible]	[illegible]
Chancellor's departments	[illegible]	[illegible]	[illegible]	[illegible]
Local authorities	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]



The Flying Bagel or the Space-aged Doughnut – take your pick. The futuristic design for GCHQ, the new government communications headquarters, at Cheltenham. GSL, a consortium made up of Group 4, Tarmac and BT, has been named as preferred bidder for the £300m-plus project which will be built either on part of GCHQ's existing site or at Gloucester business park, five miles to the south of the existing eavesdropping HQ

ACCOUNTING by Jim Kelly

Auditors have reached an impasse



There are fears that the Treasury's detailed guidance note to be published before Christmas may still fall foul of the financial reporting watchdogs at the Accounting Standards Board

It is a paradox that the government's private finance initiative, which is all about providing palpable assets for society such as hospitals, prisons, and roads, should find itself threatened by an abstract notion like accounting.

But threatened it is. There is still confusion among professionals trying to put together new PFI projects about the right way to account for the public-private sector deals. Normally such arguments have no economic impact. The PFI is an exception.

Uncertainty is supposed to end before Christmas with a detailed guidance note by the Treasury. But there are still fears that when it is published it may still fall foul of the financial reporting watchdogs at the Accounting Standards Board. Auditors, who must sign off such deals, have reached a genuine impasse. "Accounting should reflect the deal, not drive it," says Heddy Richards, a PFI expert with Ernst & Young. "What we are getting is accounting-driven deals.

"The wrong people are being forced into making decisions – auditors. We are being pushed in every direction by clients and both sides. There is a lot of pressure to go for the easy life and say it's all off-balance-sheet, but that should not be the answer."

How did the PFI, the flagship of modern public sector investment, end up in such a theoretical mess?

The private finance initiative uses the private sector to design, build, operate and finance services that traditionally the public sector has always paid for and provided itself, from hospitals and roads to defence equipment, prisons and government accommodation. The aim is to get value for money.

But that is only half the story. It also allows the capital costs of such assets to be *paid for over the lifetime of* the contract, counting as revenue spending rather than public debt. Since the concept was launched in 1992, with the public sector borrowing requirement heading for record highs, that has been the driving force behind the PFI.

In the ideal project the capital cost of the asset does not appear on the government's "balance sheet". Broadly the Treasury view is that the allocation of the asset, and its associated liability, depends on judging the risks of all elements of the service-asset PFI package. In others words, assets can be moved "off-balance-sheet" by adding service risks into a contract.

The ASB, which has an official remit only over the private sector, sees the PFI as envisaged by the Treasury as a threat to ordinary company accounting.

Its supplementary accounting standard on the issue, published in September, *would have ruled out* many PFI deals as at present constructed or at least would have resulted in the asset staying in the public sector.

Geoffrey Robinson, paymaster-general, accepted the rules in principle but said the government would not make them retrospective or apply them for up to three years.

Beyond that, application of a detailed Treasury guidance note would be on a case-by-case basis. The government's response looked like an uneasy ceasefire – and may prove to be so.

The real problem is that both sides, as they await the publication of the Treasury guidance note, have more at stake than the future of the PFI, important as that is.

The ASB is defending its own backyard. So-called "off-balance-sheet" financing was one of the corporate sector's worst abuses. The ASB has sought, largely with success, to stamp it out. It now claims to see PFI-style projects slipping across into the private sector.

'The flagship of modern public sector investment has ended up in a theoretical mess'

The government wants the PFI to work and cannot see why theoretical, even "metaphysical", arguments about theory should get in the way.

The problem is that it is in the middle of trying to reform the public sector finances along modern accounting lines. While this is not an attempt to replicate private sector accounting, the end result is very similar. A public row, exposing PFI accounting as less effective in exposing risk, would be very damaging.

So what is the likely outcome? The Treasury's guidance note, or at least drafts of it, is being keep under wraps. But the indications are that officials are concentrating on detailed contractual issues like fee structures, and the precise ways in which service and asset provision will be rewarded.

The emphasis is likely to be on practical case guidance based on past experience. There may even be an opportunity to tie this in with new standard contract clauses.

This suggests that they are still trying to adjust the risk factors allied to service provision. In other words they are still treating the PFI risk equation as a bundle, rather than looking at the asset alone. This is a course of action unlikely to impress the ASB.

Unless some remarkable breakthrough occurs it looks possible that the Treasury will be unable to construct PFI contracts for assets such as hospitals, prisons and schools without adding costs through increased service risk being passed to the operators.

Even with such additional costs it may still prove impossible by the ASB's standards to shift the asset off the government balance sheet. Auditors, who must rely on the ASB's standards when signing off accounts as "true and fair", will be hoping that whatever happens the outcome is clear enough to apply in the real world.

Another fudge could seriously damage the PFI.

BONDS by Edward Luce

Deals in pipeline await upturn

Assuming bond markets remain stable, bankers estimate there will be between six and 10 PFI offerings before mid-1999, although none before the end of 1998.

Investors in PFI bonds have not had a happy time of it recently. Although most are owned by pension and insurance funds who generally buy to hold until maturity, there has been secondary market trading in the paper.

Consequently, spreads on AAA-rated PFI bonds – those which are "enhanced" by insurance from one of the US monoline companies – have widened sharply since the Russian debt default hit the international bond markets in August.

Having achieved a low of about 50 basis points in the summer, spreads are now more than 100 basis points over their equivalent gilt benchmark. This is a far worse performance than on similarly rated paper such as AAA World Bank or European Investment Bank bonds.

Bankers attribute this to the relative immaturity of the PFI bond market. "In a crisis investors want to hold on to big liquid and well-known bond issues like the supranational institutions," says one. "PFI bonds are still very much in their infancy."

As a result there has been no PFI bond issue since Greenwich Hospital issued a £90m bond last July. Given the long lead time between the launch of a project and its financing – between six and 18 months – it is impossible to say how many bonds would have been launched had the Russian crisis not occurred.

However, bankers say that at the very minimum there would have been three or four offerings.

"The PFI market has experienced a hiccup like every other," says Stephen Payne, director of project finance at Warburg Dillon Read. "But there is a large volume of deals waiting in the pipeline."

Assuming bond markets remain stable, bankers estimate there will be between six and 10 PFI offerings before mid-1999, although none before the end of 1998.

There is a wide range of projects contemplating the option of financing through the bond markets. These include the social security department and GCHQ, both of which are seeking to finance new administrative buildings.

Worcester Hospital and Swindon and Marlborough Hospital are also looking at the bond markets. In addition, the financing for the A55 and A13 road projects is likely to be raised through bonds.

In the longer term some of London Underground's infrastructure financing could also be raised through a public issue although this would be accomplished as a public-private partnership rather than on a standard PFI basis.

Tony Poulter, head of global project finance at PricewaterhouseCoopers, says there is probably less likelihood of "unwrapped" – or uninsured – PFI offerings in the near future, given the market's relative aversion to risk at the moment.

The spread on Greenwich Hospital's BBB-rated offering has widened considerably since its launch. The same is true of the CGLR (Docklands Light Railway) single-A rated offering.

"What we have seen more recently is the type of market where investors prefer the comfort of monoline wrapped paper," said Mr Poulter.

As a result the average premium charged by the big three US monoline companies – MBIA Ambac, FGIC and FSA – is likely to rise in reflection of greater borrower demand for credit enhancement and to deteriorating economic conditions in the UK.

Until August the premium had been falling in reflection both of growing competition between the monoline insurers and the fact that borrowers were increasingly considering coming to the market with unwrapped offerings.

In addition, old-fashioned bank lending is likely to play a more prominent role than it has done recently owing to its greater flexibility as a source of capital than bond markets.

"There is very healthy competition between banks and bonds," says one banker. "The only difference is that the competition is increasingly between separate divisions within the same banks rather than between institutions."

Although bonds are usually considered the most convenient and appropriate way of financing projects owing to the longer maturities available and the fact that bond financing is fixed-rate, bank lending departments are becoming more pragmatic.

"There are some banks who are now prepared to lend up for to 25 years," says a consultant. In addition, banks are offering better hedging facilities to borrowers to compensate for the fact that bank lending is based on variable floating rate benchmarks.

However, given the fact that most PFI projects are funded by index-linked payments, fixed rate borrowing through the bond markets is likely to remain the preferred option for most projects. Despite its poor after-market performance, Greenwich Hospital's £90m offering is likely to become a model for others owing to the fact that it was priced over an index-linked, rather than a conventional gilt.

"It makes sense to have an indexed benchmark if your revenue stream is also indexed to inflation," says a banker.

On another front, there is concern about the viability of the debt financing of some PFI projects owing to possible revision of how the debt is classified. A recent ruling by the Accounting Standards Board casts some doubt on whether some types of PFI debt can be taken off the government's balance sheet.

Although the implications remain uncertain, bankers say it is most likely to affect road projects. "We have plenty of accommodation, infrastructure and hospital deals on the horizon so we are not unduly alarmed," says a syndicate official.

Who is doing the deals in PFI
Signed PFI projects since May 1997

Advisers to purchasers

Central Government

Financial Advisers				Legal Advisers			
PricewaterhouseCoopers*	11	Sachs	1	Herbert Smith	5	Morgan Bruce	2
KPMG	5	Société Générale	1	Bevan Ashford	4	Berwin Leighton	1
Deloitte & Touche	4	WS Atkins	1	Denton Hall	3	Capsticks	1
Ernst & Young	4			Eversheds	3	CLO	1
Barclays Capital	3			Lovell White Durrant	3	Dibb Lupton Alsop	1
Charterhouse	2			Nabarro Nathanson	3	Hancock & Lawrence	1
Newchurch & Co	2			Wilde Sapte	3	Hempsons	1
Nexus Health Finance	2			Addleshaw Booth	2	McClure Naismith Anderson & Gardiner	1
Noble & Co	2			Beachcroft Stanleys	2	McGrigor Donald	1
Capital Solutions	1			Dickinson Dees	2	Pinsent Curtis	1
Greenwich NatWest	[illegible]			Freshfields	2	Shepherd & Wedderburn	1
Kleinwort Benson	[illegible]			Masons	2	Tods Murray	1

Local Government

Financial Advisers		Legal Advisers	
KPMG	[illegible]	Eversheds	4
PricewaterhouseCoopers	[illegible]	Cameron McKenna	2
[illegible]	[illegible]	Bevan Ashford	1
[illegible]	[illegible]	Denton Hall	1

Winning contractors

Construction		Finance**		Property	
Balfour Beatty	4	British Linen Bank	[illegible]	Building & Property Group	3
Morrison Construction	4	Royal Bank of Scotland	[illegible]	European Land & Property Corporation	2
AMEC	3	King Sturge & Co	3	B.A. Properties	2
Jarvis	3	12 other financiers had 1		10 other companies had 1	
John Laing	3	**Facilities Managers**		**Information Technology**	
Kvaerner	3	Serco	6	EDS	3
Miller Group	3	Healthcare Group	2	ICL	3
Sir Robert McAlpine	3	Hilden Young	2	Unisys Ltd	2
Tarmac	3	Initial Healthcare	2	14 other companies had 1	
Alfred McAlpine	2	Primary Management	2		
Ballast Wiltshier	2	Wackenhut Corrections	2		
Kier	2	4 other companies had 1			
Taylor Woodrow	2				
14 other companies had 1					

Source: PFI Journal's Project Datafile * As PricewaterhouseCoopers-Coopers & Lybrand or Price Waterhouse ** Holders of equity stake in winning consortia

Insight into projects

All league tables show less than the full picture – just ask doctors, dons and teachers who have increasingly been subjected to them, writes **Nicholas Timmins.**

This one, compiled from the Private Finance Journal's data base, may do so more than most. But league tables also provide insights and this one gives an indication who is doing the business in PFI.

The figures cover the £4bn of deals which reached financial close between May 1997, when the Labour government was elected and revamped the PFI, and December 1998.

And they list only the number of deals particular firms and companies have finalised, regardless of size.

It thus shows who has been most successful by the number of contracts signed, but not who are the biggest operators in PFI in terms of value by contracts struck.

The companies listed are those directly involved in consortia which closed the deal, and the tables do not provide details on who has provided most of the finance for deals or the stake each company or finance house has. Tabulation which went back to the start of the private finance initiative in 1992 would lead to other names entering the table and would almost certainly alter rankings, but such information is not easily available.

Source: *PFI Journal* and *Project Datafile*, which are published by PSI Group, Petersgate House, Stockport SK1 1HE. 0161-480-0523. Subscription £250 a year separately or £395 jointly.

LOCAL GOVERNMENT by Alan Pike

New projects are reviving interest

There are now 14 local authority PFI deals signed while a further 66 have been endorsed in several sectors and are progressing

Richard Arthur, leader of Camden council in London, took over last month as chairman of the Public Private Partnerships Programme (4Ps).

This is the body that promotes PFI and other public-private partnerships in local government.

Mr Arthur can be grateful that during the chairmanship of his predecessor at 4Ps – Terry Colman, former leader of Merton council and now Labour MP for Putney – PFI at least became established.

There were times when its future in local government looked in doubt.

The private sector voiced worries about the financial safety of long-term deals with local authorities and councillors, for their part, questioned whether they had suitable projects to put forward.

There are now 14 local authority PFI deals signed, and a further 66 endorsed and progressing.

This scarcely reflects a PFI explosion – but the completed deals are in a range of different sectors, offering councils positive examples of what can be achieved, and 4Ps' staff now feel able to spend a little time reflecting on the future.

"Next year will continue to see potential deals in a large pipeline being converted into signed transactions," says Peter Fanning, chief executive. "Now, looking to the longer term, we must start thinking how we can improve the entire PFI process in local government."

In common with other parts of the public sector, the number of specialists in local councils who have first-rate expertise at handling PFI negotiations is limited.

But the problem is more extreme in local than central government because there are several hundred local authorities.

Since even the biggest and most enthusiastic will never have more than a modest number of PFI projects, developing and retaining in-house specialists of sufficient calibre is likely to prove a permanent difficulty for individual councils.

Mr Fanning believes this creates a need for "progress chasers" – senior, respected outside specialists – to boost individual councils' internal PFI experience, and help bring deals to fruition.

"There is a danger at present of eyes falling off the ball and time and opportunities being lost," says Mr Fanning.

"I envisage the progress chasers being experienced people with an understanding of the complexities of PFI negotiations, able to give much-needed advice to council leaders and chief executives who cannot possibly find the time to master all the detail of negotiations.

"They would not force a council into a PFI deal that was against its interests, but would have the skills to clear away the obstacles when councillors wanted a project to go ahead."

To some extent, 4Ps fulfils this role itself on pathfinder pilot projects that it promotes with councils. So it is possible that in the future 4Ps might provide the progress chaser service Mr Fanning envisages on a commercial basis.

The organisation is funded out of government grants to local authorities, but decisions on whether it will survive in the longer term – and, if so, how it will be financed – are expected before next summer.

Jimmy James, chairman of Crosher & James, which provides integrated property, taxation and financial consultancy to the property and construction industries, endorses the view that there is a need for greater understanding of PFI within local authorities.

Crosher & James has established a capital venture fund to support smaller-scale local PFI deals.

"Funds such as ours will provide the equity to enable local builders to become involved in PFI by, for example, taking on projects to rebuild single schools," says Mr James.

"I envisage our fund supporting projects of less than £20m, and in many cases probably less than £10m. PFI schemes of this order are viable, and in many cases it should be simpler to prepare bids than with bigger projects.

"But we do need adequate expertise in local authorities, and clarity of thinking on issues such as the transfer of risk to the private sector.

"In a primary school PFI project, the contractor might not be doing much more than changing the light bulbs.

"Is this a form of high-purchase construction or an operating lease?

"Either arrangement is possible, but clarity is required."

Mr Arthur, in his chairmanship of 4Ps, is anxious to stimulate other forms of public-private partnership as well as pure PFI.

This raises questions about how general relationships between local government and the City might be put on a more mature basis.

A study supported by the Local Government Management Board and the Department of the Environment, Transport and the Regions this autumn found that relationships between the two are still in their infancy.

It added: "Generally, local authorities do not have the knowledge and skills to negotiate private sector funding, and training is required across a spectrum of related topics."

Almost all councils responding to the survey – 95 per cent of the total – said they needed greater understanding of PFI, with 92 per cent needing to improve their overall knowledge of private finance markets.

However, bankers who addressed a conference to launch the survey findings emphasised that they regard local government as a substantial market, and one they are interested in developing.

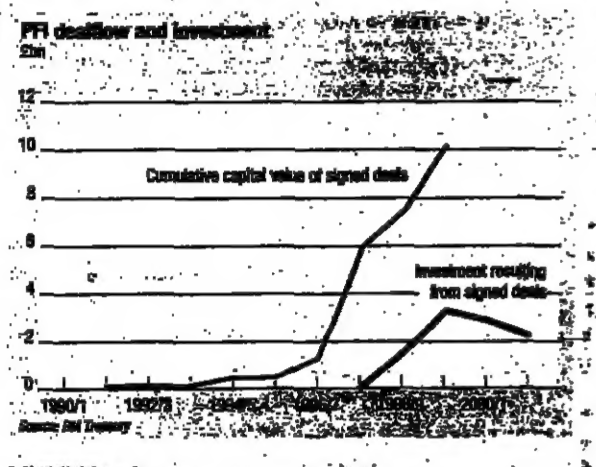
Follow-up work is taking place on ways of bringing the two institutions closer together.

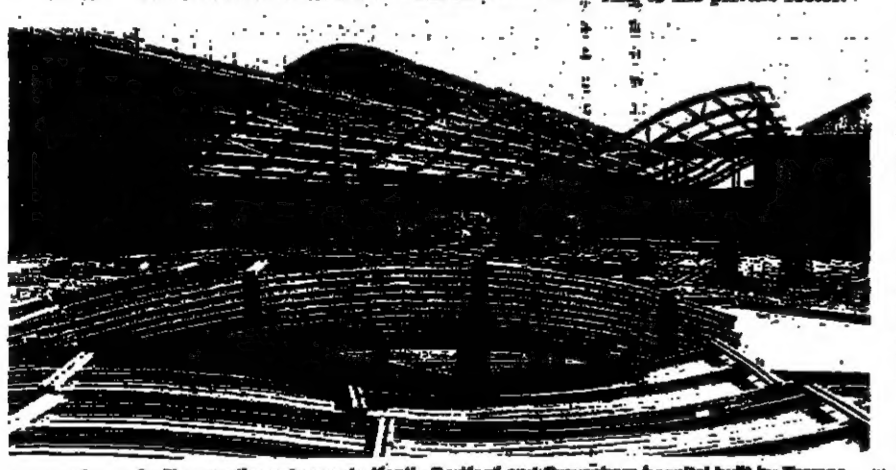
Expected public sector spending commitments

Current prices

Year	£m
1999-00	1,590
2000-01	2,650
2001-02	2,990
2002-03	2,700
2003-04	2,990
2004-05	3,240
2005-06	3,220
2006-07	3,280
2007-08	3,190
2008-09	3,010
2009-10	3,040
2010-11	3,080
2011-12	3,120
2012-13	3,020
2013-14	2,810
2014-15	2,770
2015-16	2,880
2016-17	2,680
2017-18	2,540
2018-19	2,710
2019-20	2,110
2020-21	2,080
2021-22	2,110
2022-23	2,030
2023-24	1,920
2024-25	1,880
2025-26	1,530
2026-27	1,400

Source: HM Treasury





A wave-like roof will cover the entrance to Kent's Dartford and Gravesham hospital built by Tarmac

HOME OFFICE by Simon Buckby

Reality inspires enthusiasm

The home office is increasingly turning to PFI to fund projects such as police stations, fire stations and magistrate's courts

Prisons have proved the battering ram which has put the private finance initiative at the heart of many home office projects. Ministers aim to repeat their achievements by introducing an internal market in secure accommodation for juvenile offenders, buttressed by the building of five PFI secure training centres. But PFI is spreading rapidly to help fund local projects, such as police stations, fire stations and magistrate's courts.

All of this is a long way from the initial hostility of Jack Straw, home secretary, to a privately-financed prison building and management programme.

However, once the realities of overcrowding and funding shortage twisted his arm, PFI prisons started rolling off the production line.

Parc (Bridgend) was the first to open 12 months ago, followed by Lowdham Grange (Nottinghamshire) and Altcourse (Liverpool). Mr Straw has already awarded contracts or at least drawn up short lists to build Agecroft (Salford), Pucklechurch (Bristol), Onley (Rugby) and Marchington (East Staffordshire). The next wave is soon to include Peterborough, Maghull (Merseyside), Winnick (Manchester) and Ashford (Middlesex).

The home secretary is also expected to extend the private management contracts at the publicly-built prisons at Doncaster, Wolds (Humberside) and Buckley Hall (Manchester), just as he did at Blakenhurst (West Midlands).

The success of PFI prisons, not least in driving up efficiency in the public sector, has led Mr Straw to announce plans for an internal market in secure accommodation for juvenile (under 18) criminals, similar to the purchaser-provider split in the NHS.

From April 2000, the new Youth Justice Board will have a budget of about £150m a year to purchase secure units from the Prison Service, local authorities and others, which will have to compete for business on quality and cost.

In addition to the 15 Youth Offenders Institutes run by the Prison Service, local authority secure accommodation units and the Glenthorne youth treatment centre run by the Department of Health, there are to be five new secure training centres built and run under PFI rules. Contracts have been let and they will add to the existing one in Kent.

The secure training centres mark an important expansion of PFI from the prison sector. But the home office is increasingly turning to PFI to fund projects outside the business of incarceration.

For instance, Lonann management consultants were recently awarded a three-year contract worth £6m to deliver specialist community and race relations training to all local police forces and through the National Police Training services.

The Public Safety Radio Communications Project will lead to a contract to supply a new, more secure radio system for all police officers.

Many other home office services, such as fire and other elements of policing, are provided locally. Such has been the success of local authorities and the home office in promoting local PFI projects, the department's procurement credits have been increased from £80m to £100m for 1998-99.

Fred Portnell, consultant with the Public Private Partnerships Programme (4Ps) which has been involved in many of these deals, said: "The credit rise came because the home office could show it had deals in the pipeline which were ready to go. It has proved that where you have a determined procurer, you get deal flow. When the department is committed, looking for opportunities and willing to support them with resources and political will, projects get going."

The first of this kind, the Derby-Ilkeston police station worth £2m, is already operational. "Although this has been a success, we have learned that in future such schemes may be too small to warrant an individual project. It may be better to group them together," said Mr Portnell.

This is the problem facing PFI deals in probationary work, where feasibility studies have suggested the schemes are too small.

Experience has revealed that many national institutions feel they may not generate sufficient efficiencies on projects with a capital value of less than about £10m to make them worthwhile.

However, regional companies are sometimes willing to step in to deals worth as little as £1m.

And many important local projects do not cost very much, such as the deal signed to build stables for the mounted police in Northumbria (with a capital value of about £1.5m).

Preferred bidders have been agreed and contracts due to be signed for many accommodation projects, including area police headquarters in Cumbria (£8m), Derby (£10m), Dorset (£10m), Norfolk (£20m) and the Thames Valley (£8m). Contracts are also soon to be signed for air support facilities in Wiltshire (£2m) and to procure, manage and maintain police cars and vans in Nottingham (£20m). Tenders have been invited to build a weapons training facility in Cleveland (£10m).

There are examples of PFI successes in the fire service, too. The first to become operational will be the new fire station in Greater Manchester (£8m) but the largest is in London (£50m), where PFI deals will supply and maintain all front-line vehicles.

In the south-west, the three fire authorities of Avon, Gloucestershire and Somerset are shortlisting for a single training centre.

These local deals are often difficult to negotiate because of their unique features. But there is no doubt projects are queueing up for consideration. As lessons are learned, they are likely to become more frequent still.

FINANCIAL TIMES SURVEYS

GENERAL INFORMATION

FT Surveys
One Southwark Bridge
London SE1 9HL
Tel +44 (0) 171 873 4090
Fax +44 (0) 171 873 3197; e-mail: ft.surveys@ft.com

SURVEYS PROGRAMME AND INDEX

Surveys are published most days of the week with the FT. Topics include financial markets, global industries, business management and developed and emerging countries. A list of the following week's surveys is published every Monday in the Guide to the Week on the back page of Section Two of the FT.

☐ For details of forthcoming surveys or a list of past surveys, consult the FT Web site http://www.FT.com/newspaper/services.htm. Customer service is available in the event of difficulties on 0171 873 4848.

Alternatively, you may call the FT Fax-U-Back service.

☐ Forthcoming surveys programme: 0990 209 908.

☐ Past surveys index: 0990 209 907

(Callers outside the UK dial exit code + 44 990 209 908). Ensure your fax is in polling mode. Users with a handset on their fax machine should dial the Fax-U-Back number and press Start when instructed. Otherwise, dial direct from the fax keyboard, then key Start.

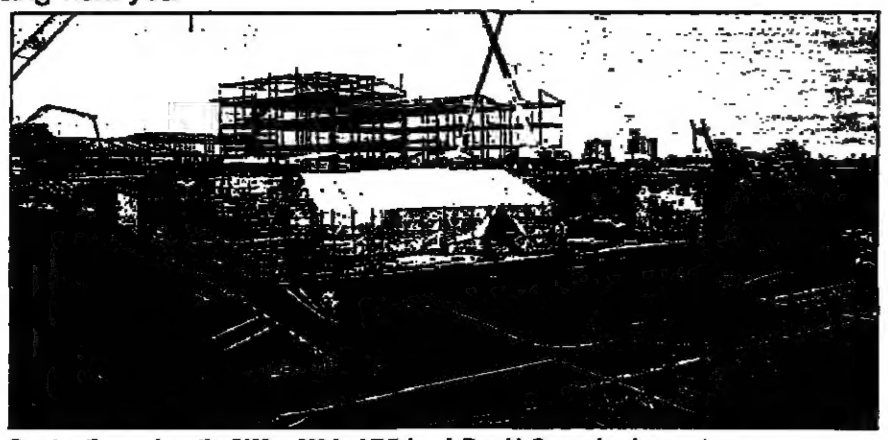
SCOTLAND by James Buxton

Spin-doctor's nightmare

It is not certain how enthusiastic the Scottish government will be about new schemes when it comes into being next year

It was a spin-doctor's nightmare. Donald Dewar, the Scottish Secretary, was authorising eight Scottish councils to negotiate PFI schemes worth £330m to rebuild or refurbish more than 70 schools.

Yet BBC Radio Scotland chose to lead its breakfast news with a vitriolic attack on PFI by Bill Speirs, general secretary of the Scottish Trades Union Council.



Construction work on the £180m, 869-bed Edinburgh Royal Infirmary has begun

Mr Dewar's decision means that Glasgow council can issue tender documents for a £136m project to refurbish or replace all its 29 secondary schools, while Edinburgh will begin a £80m scheme for 27 schools. The Scottish Office is committed to increasing the eight councils' revenue support grant by £25m a year to help pay for the schemes.

Yet the reaction from Mr Speirs, and the treatment of that reaction by Scotland's leading broadcasting organisation, shows that PFI has yet to gain full acceptance. Mr Speirs said PFI threatened public sector jobs and was more expensive in the long term.

With the Scottish National party, Labour's main opponents in Scotland, opposing PFI, it is not certain how enthusiastic the Scottish government will be about new PFI schemes when it comes into being next year after the parliament opens.

Although there has been a burst of contract signing in recent weeks, with more to come shortly, all relate to projects initiated under the Conservatives. But for the moment the many advisers and providers of services and finance in the PFI community are glad to see projects moving forward, while councils see the prospect of remedying years of neglect in school maintenance.

In the autumn a Labour-run Scottish council, Falkirk, signed the UK's first PFI for a group of secondary schools – a £70m deal with Ballast Wiltshier, the builder, Charterhouse Bank, the majority stakeholder, and Quayle Munro, the merchant bank.

In the NHS, contracts were signed in June for the building and running of the new Law hospital near Motherwell in a £146m project with Summit Healthcare, a consortium of Sir Robert McAlpine, British Linen Bank and Serco, the facilities management company.

It is financed by a £136m bond raised by British Linen Bank, the merchant banking arm of Bank of Scotland which William Moyes of BLB says is only the second time a bond rather than senior debt has been used in financing a PFI project.

Bonds have the advantage for the government of being cheaper in the early years.

In August contracts were signed for the new Edinburgh Royal Infirmary, a £180m project that is the biggest PFI scheme so far concluded in the NHS.

The 869-bed hospital is being provided by Consort Healthcare, a consortium of BICC, Morrison Construction and Royal Bank of Scotland. The consortium will build the hospital, equip it at an extra cost of £20m, maintain it and provide ancillary services.

Michael Martin, an executive director of Edinburgh-based Morrison, says it is one of the most complicated PFI schemes ever negotiated, which explains the years it has taken to reach closure. However, construction began some months before closure and is on course for completion by 2003.

Without much publicity Scotland's first privately financed prison is being built near Kilmarnock in Ayrshire in a £32m project by Kvaerner Construction and Premier Prison Services. The contracts were finalised last year.

Scotland has an additional PFI market to the rest of the UK with its three state-owned water authorities, which must use PFI to fund large projects that in England the privatised utilities would finance. Their priority is to upgrade their sewerage treatment to meet EU standards in 2000.

But North of Scotland Water is the only one to have closed a contract, concluding in December, 1996, a £45m deal with Catchment, a consortium whose members are United Utilities, Bechtel and Morrison Construction. It is also in negotiations with Catchment for a £100m scheme for the Dundee area.

East of Scotland Water is in final negotiations with Stirling Water, a consortium led by Thames Water, for a £100m project which involves upgrading and operate treatment works at Seafield and in the Almond Valley near Edinburgh.

West of Scotland Water is still negotiating with the preferred bidder, a consortium of Scottish Power, Miller Group, and Wabag of Germany for a £35m sludge treatment system at Shieldhall and Daldowie in Glasgow, and is in negotiations with another consortium for the Dalmuir sewage treatment plant near Glasgow.

Drysdale Graham, a partner with McGrigor Donald, the Glasgow solicitors acting for Stirling Water, says: "In Scotland we have the luxury of a water and sewerage PFI market which does not exist south of the border.

"There are a lot of projects in the pipeline but the amount of future work in this area is limited."

However, one market in Scotland has dried up completely, leaving considerable resentment in the PFI community. There are likely to be no new PFI road schemes, despite the fact that the initiative was pioneered for road construction. Only one scheme, the completion of the M6 motorway, is under way in Scotland.

In August, Henry McLeish, the Scottish roads minister, scrapped a plan to build a five-mile stretch of highway to complete the M8 Edinburgh-Glasgow motorway at a possible cost of £160m. Yet at the Scottish Office's invitation four consortia had prepared bids and pre-qualified. They are now seeking compensation for what Mr Martin says amounts to millions of pound worth of wasted work. "I find the government's position very disappointing," he says.

DEFENCE by Alexander Nicoll

Marching to the front line

MoD officials are attempting to test the limits by opening up to private bidders activities which may be more controversial

In the Ministry of Defence, the private finance initiative is marching to the front line. Although only 21 contracts have been signed since the MoD first embraced the concept in 1995, about 100 projects are now being considered for PFI treatment in an increasingly ambitious programme.

Officials are attempting to test the limits of what can be achieved through PFI by opening up to private bidders a number of activities which are close to the front line of combat and sensitive in national security terms.

Earlier contracts were mainly in non-controversial areas – though this does not mean they were easy to achieve, as the public and private sectors took time to get accustomed to the concept.

Seven of the contracts signed so far relate to training, especially in helicopter flying. Others are for provision of support vehicles, residential accommodation, and water and sewerage services. PFI contracts have been signed for administration of the armed forces' pay and pensions, and the installation and operation of a new telecommunications system within and between MoD establishments.

The biggest debate – and apparent limiting factor – has been the extent to which private sector companies could be responsible for activities carried out at or near the front line of combat. Service chiefs are naturally concerned about erosion of the forces' operational readiness and effectiveness.

During this year's Farnborough air show in September, the MoD invited companies to express interest in the replacement of the Royal Air Force's ageing fleet of VC-10 and Tristar aircraft used as tankers for in-flight refuelling and for other transport requirements.

The new aircraft – almost certainly adapted versions of Airbus or Boeing airliners – would be owned and maintained by the contractor, though they might still be flown by RAF crews.

Officials say they have received an encouraging response from industry and that formal invitations for bids are likely to be issued next year. Industry's enthusiasm is understandable – some 70 companies have expressed interest – given that the aircraft would have a capital value of some £2.5bn and the contract value could be £6bn.

While an aircraft contract such as this takes many years to come on stream, two other projects close to the front line could provide an earlier test: transporter trucks for heavy equipment such as tanks, and roll-on roll-off ships to carry equipment on overseas deployment. Both would involve the use of "sponsored reserves", to which the MoD committed itself in this year's strategic defence review.

Tank transporters would be driven by employees of the contractor. In a conflict, however, they would wear uniforms, bear arms for self-defence and come under Queen's regulations.

This means employers would have to commit themselves to the Army's requirements both for training and availability of the drivers. Questions such as insurance have still to be fully tackled.

Selected defence PFI projects

Contracts signed

	Cost (£m)*
Training on Apache attack helicopter	165
Administration of armed forces pay/pensions	180
Defence helicopter flying school	118
Training on medium support helicopter	100
Telecommunications in MoD establishments	70
Joint Service Command and Staff College	66
Support vehicles in Germany	62
Projects in procurement	
Skynet 5 satellites	780
Airfield support vehicles for RAF/RN	390
Tri-service cargo carrying vehicles	350
Redevelopment of Colchester garrison	180
Refurbishment of MoD main building	175
Water and sewerage at all MoD establishments	100
Tri-service fuel carrying vehicles	96
Heavy equipment transporters	93

* Estimated capital cost of public sector comparator.

Source: MoD. Complete list on MoD website http://www.mod.uk

Officials say these projects are "pathfinders", deliberately intended to test what is possible under PFI. The principal driver, however, is the desire to achieve greater value money from the £22bn defence budget. They say contracts signed so far have saved between 5 and 40 per cent when compared with their estimate of the best price which could have been achieved in the public sector.

Keeping heavy equipment transporters and ro-ro ships in private hands would be cheaper because owners could make additional commercial use of them at times when the MoD's needs were below those at peak times such as during a deployment or major exercise.

Private ownership and maintenance of Army trucks could not have been contemplated in previous decades when production standards in industry were much lower than present levels. Modern vehicles are designed to be used constantly and then to be replaced, officials argue. "It no longer makes sense to have to obtain spares for lorries made 30 years ago."

Other important contracts on which the MoD will make decisions in the coming months include the refurbishment of its own main building on Whitehall, London; the redevelopment of the Army's garrison in Colchester; and Skynet 5 military satellites.

Officials say a number of lessons have emerged from the PFI deals signed so far. First, they have to approach the private sector with clear requirements and documentation; second, the MoD needs to form a strong professional team for each project; third, they need to be flexible in negotiation, though with the backing of an overall framework guiding them on contractual issues; fourth, officials need to ensure they get the best advice from private sector financial advisers, who should be involved at a relatively early stage.

WASTE MANAGEMENT by Alan Pike

Rubbish business set to grow

The industry is turning into a sector actively involved in advanced disposal techniques

PFI has aroused public passions. Westminster city council's attempts to use the initiative to rebuild Pimlico school is attracting opposition from parents, worried that their children would be educated on a building site while the school was gradually transformed around them.

Waste management should prove less controversial. As crucial as the efficient collection and disposal of waste is for modern society, it is not a service that generates a strong sense of public involvement.

It is, however, one that should fit with ease into PFI and other forms of public-private partnership. A public service with an established tradition of private sector input, it lends itself naturally to long-term business strategies.

The sector's high investment costs – new incinerators typically cost between £30m-£40m – act as an incentive for local authorities to seek commercial involvement.

There are two local authority PFI waste deals signed so far – in the Isle of Wight and Kirklees – and three others under negotiation. These involve the former county of Hereford and Worcester, South Gloucestershire and a large, 500,000 tonnes per annum, integrated waste management scheme for Surrey.

Britain produces 120m tonnes of waste for disposal each year. The government is consulting on a new waste management strategy which will be finalised next year.

Many of the more rigorous, high quality waste management standards that the government's strategy will be promoting are features of the PFI schemes.

The Hereford and Worcester project includes a waste-to-energy plant, and the PFI payments structure will contain incentives to encourage recycling and reduce use of landfill dumping. Kirklees's contract with United Waste Services – worth £175m over 25 years – is also based on converting waste to energy in addition to a materials recovery facility, composting plants, civic amenity site management and the restoration and aftercare of existing landfill sites.

Outside metropolitan areas waste management is divided between district councils, responsible for collection, and county councils that handle disposal. The government is consulting on whether this division works against an integrated approach to waste management. Whatever the outcome of the consultation PFI, and a forthcoming legal requirement on councils to demonstrate best value in service delivery, is likely to encourage increased collaboration between authorities on waste management.

Fred Portnell, the official at the Public Private Partnerships Programme (4Ps) responsible for waste management schemes, believes it is an area where public-private partnerships gives both partners the potential to offer innovative solutions. These can range from sophisticated waste handling and separation arrangements to generating additional income through collecting commercial waste and providing energy from incinerators.

In the current financial year so far, about half the Department of the Environment, Transport and the Regions' allocation of government financial support to pump-prime PFI has gone to waste schemes. There is likely to be increasing competition for such support, and Mr Portnell stresses that successful schemes will have to show integrated, sustainable and affordable long-term solutions, with reduced dependence on landfill and improvements in recycling.

The reputation of the UK waste industry is evolving from a once-familiar image for undiscerning collection and dumping to a forward-looking industrial sector that is actively involved in advanced waste management techniques. A number of large companies now have experience of working closely with local authorities. Whether through pure PFI projects or alternative forms of outsourcing and joint ventures, the unglamorous but vital field of waste management is one where public-private partnership seems certain to grow.